Austria	Sch22	Indonesia	Rp3100	Oman	Or1		
Bahrain	Dhs0.700	Iran	[illegible]	Pakistan	Rs15		
Belgium	BFr50	Israel	Shk5.50	Philippines	Pes30		
Cyprus	C£0.80	Italy	L1700	Portugal	Esc140		
Denmark	DKr12.00	Jordan	Fils500	Qatar	QR9.00		
Egypt	E£3.25	Kuwait	Fils600	S.Arabia	SR7.00		
Finland	Fmk7.00	Lebanon	$US1.25	Singapore	S$4.30		
France	FFr7.00	Lux	LFr50	Spain	Pta145		
Germany	DM2.30	Malaysia	Rin4.25	Sweden	SKr10		
Greece	Dr120	Morocco	Dh8.00	Switz	SFr2.40		
Hong Kong	HK$12	Neth	Fl3.00	Thailand	Bt60		
Iceland	Ikr165	Nigeria	Naira10	Tunisia	Din0.800		
India	Rup15	Norway	NKr10.00	Turkey	L900	UAE	Dh7.00

EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

No.30,886 — Wednesday July 5 1989 — D 8523A

GUATEMALA

World Bank deal is a rose with thorns

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World News

Pilotless Soviet MiG crashes in Belgium

The Soviet Union said a MiG-23 jet fighter which flew unmanned across Western Europe through Nato air defences before crashing in Belgium suffered a technical malfunction during a training flight over Poland.

The MiG apparently carried no nuclear weapons. Eyewitnesses reported several explosions after the jet crashed into a house in Bellegem, near the French border, killing a resident. Page 2

Pakistan bomb fears

Pakistan fears a massive destabilisation campaign may have begun with a bomb explosion on a bus in the centre of the busy town of Peshawar killing at least seven people. Page 3

Checkpoints open

Three of six crossing points between Beirut's Christian enclave and the rest of Lebanon reopened following a unilateral ceasefire offer by Syria's Moslem militia allies. Page 4

Candidates rebuffed

Soviet parliamentarians refused to confirm Mr Vladimir Kamentsev as head of the Foreign Economic Commission in a rebuke to President Mikhail Gorbachev. Page 2

Howe calls on China

Sir Geoffrey Howe, British Foreign Secretary, marked out the next phase of the government's policies on Hong Kong calling on China to help rebuild the colony's battered self-confidence. Page 3

UK strike talks

Talks which could lead to the first breakthrough in the UK rail dispute will take place this morning as commuters face getting to work without trains for the third successive Wednesday. Page 8

Pakistan decision

All members of the Commonwealth have agreed that Pakistan should be readmitted and Sir Shridath Ramphal, the Secretary General, has confirmed this to Miss Benazir Bhutto.

US Embassy protest

The US Embassy said it had protested to China over an incident in which they claim troops raked diplomats' homes with machine gun fire.

Vote may end rule

Leaders of Mexico's ruling Institutional Revolutionary Party say they may fail to gain a majority of a state congress for the first time in 60 years after elections. Page 4

Bush voices concern

President George Bush has telephoned the prime minister of Turkey to voice concern about the treatment of ethnic Turks in Bulgaria.

Vatican dissatisfied

The Vatican newspaper said that a US Supreme Court ruling narrowing the right of American women to abortion did not go far enough.

5m in wages strike

More than 5m workers joined a strike in Bangladesh in protest over wages.

Chain gang strikes

Singapore's "Loo Patrol," on the lookout for public toilet users who fail to flush, have caught the first offenders under a law which provides for fines up to S$1,000 ($500).

Business Summary

Gold Fields accepts new bid terms from Hanson

CONSOLIDATED Gold Fields last night agreed to improved terms from Hanson, bringing one of Britain's biggest and most hotly contested takeover bids close to a conclusion. Gold Fields said the revised bid was worth £15.30 a share, in line with the final terms offered by Minorco for Gold Fields in a bid which failed in May.

The agreed offer is made up of £14.30 in cash, along with an extra dividend of 40p per share gross of tax and warrants valued at 60p a Gold Fields share.

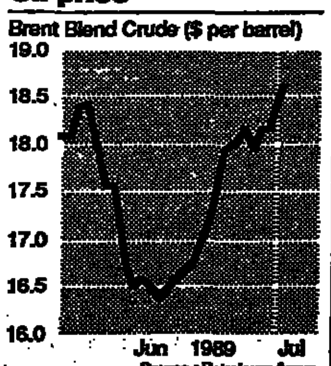
OFFICIAL intervention to support the pound last month caused a record $2.24bn fall in Britain's reserves of gold and foreign exchange in June, according to Treasury figures.

The sharpness of the fall underlined selling pressures on the pound but these might be abating. Page 18

OIL: Prices continued to firm yesterday in response to a wave of strikes by contract workers on North Sea oil platforms, which created fear that production could be affected. North Sea Brent crude for July delivery rose by 17 cents in European trading to close at $18.62. Commodities, Page 30

Oil price

Brent Blend Crude ($ per barrel)



Source: Petroleum Argus

FRIED. KRUPP, West German steel and industrial group, predicted it would return to profit after a net loss of DM 202m ($103.3m) in 1988. Page 19

NOMURA Securities, Japan's largest stockbroker, is taking a 25 per cent share in MAT Main Anlage Trust, Manufacturers Hanover's Frankfurt-based fund management and financial services operation. Page 19

BBC ENTERPRISES, commercial arm of the BBC, is looking at setting up joint-venture television production companies with US and Australian networks. Page 6

SCOTTISH & Newcastle Breweries unveiled a new corporate strategy which calls for the redeployment of more than £600m ($948m) of assets and a concerted drive into the European leisure industry. Page 19; Lex, Page 18

INTERNATIONAL Business Machines, world's largest computer manufacturer, is losing market share in Europe on which it depends for nearly half its world-wide profits. Page 20

CHANNEL TUNNEL: Completion of the new cross-channel link will have a more profound effect on many British companies than the EC single market itself according to a pilot research study. Page 6

BOND Corporation, cash-strapped Australian master company of Mr Alan Bond, put up for sale its prime Sydney office development in the latest attempt to shed assets. Page 22

TYNDALL Holdings, UK-based financial services group, is attempting to restore the financial position of its Australian fund management operations through a deal with Industrial Equity (IEL). Page 22

NEW YORK markets were closed for the Independence Day holiday.

Brazil delays debt payments in move to guard reserves

By John Barham in São Paulo and Stephen Fidler in London

BRAZIL, the largest debtor nation in the developing world, has decided to delay payments to foreign creditors and investors to safeguard its foreign reserves.

The measure was announced yesterday by the country's Finance Ministry, which said that it was prompted by unsustainable capital outflows in the first half of the year.

The move is likely to affect interest payments on loans to commercial banks and remittances to foreign investors.

International bankers were unsure how to interpret the move; partly because a telex to be sent to the country's more than 300 bank creditors had apparently been held up because of the US Independence Day holiday.

However, bankers yesterday interpreted the development as tantamount to a *de facto* temporary suspension of interest payments to private creditors and of dividend and capital remittances by foreign investors until reserves are built up by at least $1bn. Reserves now stand at about $5.5bn

Mr Sérgio Amaral, director of international affairs at the Ministry of Finance, stressed that the Government wished to avoid a confrontation with the international financial community.

Brazil suffered from a costly battle with bank creditors after it declared a moratorium on medium-term and long-term debt payments to banks in 1987. Mr Amaral described the moves as "preventive measures to protect reserves and reduce (financial) speculation." He said there had been no decision to suspend interest and dividend payments, and the finance ministry would oppose such a move.

Interest payments on the country's $112.5bn of debt will amount to more than $10bn this year. The Finance Ministry says companies removed $2.0bn of capital in the first half of the year, more than the $1.8bn in net outflows during all of 1988.

Officials said intense speculation in the black market for currency speeded the capital outflows, increased imports and reduced hard currency deposits by exporters. Despite strong exports in the first five months of the year, the trade surplus had begun a downward trend.

Uncertainty surrounding elections in November have heightened the problem of capital outflows.

More than $800m in interest payments to the Paris Club of government creditors has already been delayed by the move, although officials said they expected the delayed payments could be made within days.

The move was made possible by the centralisation on Monday of foreign exchange operations at the central bank. The ministry explained that the central bank will authorise currency transfers on a case-by-case basis and it will adjust payments to income from abroad.

Brazilian officials have indicated that short-term inter-bank and trade finance lines will be unaffected by the moves, while institutions such as the International Monetary Fund and World Bank will also be high priority creditors.

The Government's inability to control inflation and its spending deficit has made agreement with the IMF over a standby loan virtually unattainable, which has in turn worsened the government's foreign payments plight. In the absence of an accord with the IMF, disbursements of $600m from commercial banks and other large loans from the World Bank and from Japan will not be made.

Banks are receiving constant flows of interest payments, but the next large payment of more than $1.5bn is not due until September.

A jolly good start: Soviet President Mikhail Gorbachev (left) and French President François Mitterrand at Orly airport outside Paris yesterday at the beginning of Mr Gorbachev's three-day visit to France. The talks, writes Ian Davidson, got off to a warm and friendly start. The two men agreed on the need for intensifying East-West contacts and accelerating disarmament negotiations. Mr Roland Dumas and Mr Eduard Shevardnadze, their Foreign Ministers, signed four bilateral agreements, out of the score or more scheduled to be completed. Mr Shevardnadze proposed that the conclusion of the Vienna conventional arms negotiations be crowned by a summit meeting of all the 35 participating states, from Nato, the Warsaw Pact and the neutral and non-aligned. Mr Dumas insisted that such a summit could only take place if there were equal progress in all three of the so called Helsinki baskets - human rights and economic co-operation as well as arms control. Revolutionary chords, Page 2

Poland's dissidents take the stage in new drama

By Christopher Bobinski in Warsaw

FOR DECADES the oval-shaped chamber of Poland's parliament, the Sejm, has been the stage for debates in which members have done little more than rubber-stamp the Communist Party's decisions.

Yesterday, it was graced with an altogether different cast acting out an altogether different drama. The 161 Deputies who belong to Poland's Solidarity movement were sworn in at the inaugural session of the lower house, the first time that an opposition party has sat in an East European parliament since the late 1940s.

Many of those sitting on the benches for the first time yesterday have seen years of imprisonment and internment. They are now determined to bring a new style to the parliamentary debates.

Besides the deputies were leaders of the various parliamentary parties who did not personally choose to contest seats in last month's elections. Most prominent were Mr Lech Walesa, the Solidarity leader and General Wojciech Jaruzelski, the Communist Party chief, who walked into the chamber together to much applause and sat in places of honour on their parties' front benches.

In the gallery above the chamber was the empty presidential chair – the most poignant symbol of the country's political stalemate. General Jaruzelski remains a candidate for the post of President, despite his own declaration that he does not want to stand. He is still to take a final decision on the matter and has suggested that General Czeslaw Kiszczak, the Interior Minister, would be a suitable alternative.

Also in the gallery was Poland's outgoing government led by Mr Mieczyslaw Rakowski. He was the butt of much criticism from opposition delegates.

Mr Jacek Kuron, a leading Solidarity member, joined in the attack on the Government, saying its policies had been chaotic. He attacked it for imposing a prices and wages freeze.

Mr Kuron's speech provoked an immediate reply from the Communist benches. Mr Ireneusz Sekula the present Government's Deputy Premier, argued that the latest round of

Continued on Page 18

Toyota plans light vehicle assembly plant in Europe

By Kevin Done, Motor Industry Correspondent, in London

TOYOTA, Japan's leading automotive group, plans to decide within a year on the next stage of its ambitious European expansion – involving the location of a light commercial-vehicles assembly plant in Europe.

This emerged as the group yesterday confirmed its plan to invest £140m ($220m) in building its first European engine plant at Shotton in North Wales, where it will eventually employ 300 people.

The engine plant brings the company's total planned investment in the UK to £840m. It follows its announcement earlier this year that it is to build a £700m car assembly plant at Burnaston, near Derby – the biggest inward investment by a Japanese corporation in Europe.

Toyota has decided not to seek state aid for the project, despite the fact that Shotton has full development area status to qualify for selective regional assistance. Since January, all state aid to the European Community motor industry exceeding £5m must be approved in advance by the Commission in Brussels.

Mr Junji Numata, Toyota managing director in charge of overseas operations said the "priority" would be to locate the light commercial vehicles plant in continental Europe.

Portugal was "one of the options," as the company already had a minority equity stake there in a small-scale assembly operation for the local Portuguese market.

He said Toyota would "most probably" build the light commercial vehicles operation alone rather than in a joint venture. It was intended to begin production in 1993-94.

Mr Numata said Toyota was also seeking to double its annual production of pick-up trucks under its joint production deal with Volkswagen in West Germany, to 30,000 in the early 1990s. In January VW began production under licence

Continued on Page 18

Vienna to apply for membership of EC

By David Buchan in Brussels

AUSTRIA will formally apply for membership of the European Community on July 17 after a decision yesterday by the Austrian Government endorsing the move.

The application is expected to be lodged with France, currently president of the EC Council of Ministers, at a regular meeting of EC foreign ministers in Brussels.

The European Commission is likely to be instructed by the foreign ministers to give its detailed advice on Austrian entry. This e could take at least a year.

The main sticking point in negotiations will be Vienna's insistence on maintaining its neutrality, underpinned by the Austrian State Treaty, which gave back the country its independence in 1955, and to which the Soviet Union and the other Second World War allied powers are signatories.

Austria's letter of application, which Dr Alois Mock, its Foreign Minister, will take to Brussels, states: "Austria is convinced that it will be able to adhere to its commitment of permanent neutrality . . . as a member of the European Community, and make a specific contribution to the preservation of peace and security of Europe with its policy of neutrality."

However, Mr Jacques Delors, the Commission President,

Continued on Page 18

European air traffic congestion may be eased by new system

By Tim Dickson in Brussels

AN important initiative aimed at easing the chronic congestion of air traffic over Western Europe was launched yesterday when transport ministers from 11 countries agreed to set up an Ecu60m ($64.2m) centralised information system for air traffic controllers.

The initiative will be managed by Eurocontrol, the European Organisation for the Safety of Air Navigation, but will not remove national responsibility for air traffic control.

It will pull together information from the 22 states which belong to the European Civil Aviation Conference (ECAC), facilitate route planning across Europe and find alternatives quickly for airlines in saturated airspace.

Mr Noel McMahon, Ireland's Secretary of Tourism and Transport and vice president of the Eurocontrol Permanent Commission, said after the decision had been agreed yesterday that airline operators and passengers would benefit from a "centralised and more efficient flow management by receiving data on route utilisation direct from the central system."

Preparations for the system will begin immediately and centralised long term strategic flow management will be available from early 1990. The new Eurocontrol unit will be housed in Brussels in purpose-built accommodation. It will eventually employ 300 engineering and operational staff drawn from participating countries.

Mr McMahon said that by the end of 1991, the unit "will also be capable of rationalising the planning of tactical day-to-day flow management." By 1993 the new facilities will have been tested for operational use and will replace the existing 10 national or regional flow management units.

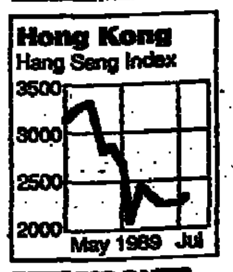
The political signal for developing the new system was first given by ECAC ministers last year. Subsequent negotiations have centred on the size of the project and its location. Frankfurt had been proposed as one alternative to Brussels.

Even the strongest supporters of the new system admit that it will not solve the underlying air traffic control problems, which, airlines say, result from a lack of capacity at European airports and widely differing national air traffic control systems. One airline official said yesterday: "These need to be harmonised. The new Eurocontrol unit will attack the symptoms but it will not cure the underlying disease."

The Association of European Airlines, which is set to unveil its own plans for a Europe-wide air traffic control system after the summer, regularly logs the worsening delays experienced by its members. Its 1988 yearbook reported that 19 per cent of all intra-European flights were delayed on departure by more than 15 minutes, more than two thirds of them attributable to "deficient infrastructure."

MARKETS

Hong Kong
Hang Seng Index



STERLING
New York closed
$ (Mon:1.5775)
London:
$1.5875 (1.5775)
DM3.0500 (3.0425)
FFr10.3650 (10.3325)
SFr2.6150 (2.6100)
Y224.75 (222.75)

DOLLAR
New York closed
DM (Mon: 1.9295)
FFr (6.5545)
SFr (1.6550)
Y (141.25)
London:
DM1.9215 (1.9285)
FFr6.5225 (6.5500)
SFr1.6465 (1.6545)
Y141.55 (141.25)

GOLD
New York latest
Comex August $381.1 (377.3)

STOCK INDICES
New York closed
Dow Jones Ind. Av. (Mon: 2,452.77)
S&P Comp (Mon: 318.60)
London:
FT-SE 100 2,174.4 (+8.8)
World: 142.03 (Mon)
Tokyo
Nikkei Ave 33,190.35 (-46.04)
Frankfurt
Commerzbank 1,864.0 (+29.2)

OIL
Brent 15-day (Argus) $18.62 (+0.17) (July)
West Tex Crude Not available (closed July 4 holiday)

INTEREST RATES
US closed
Federal Funds (Mon: 9¼%)
3-mth Treasury Bills: yield: (Mon: 8.215)
Long Bond: (Mon: 109⅛) yield: (Mon: 8.06%)
London
3-month interbank: close 14% (14⅛)

CONTENTS

Avoiding the big step forward in the Middle East

Israeli Prime Minister Yitzak Shamir finds himself under heavy fire from right-wing members of his own Likud Party over a peace plan that proposes elections in the occupied territories. Page 16

EUROPEAN NEWS

Soviet Deputies refuse to confirm senior minister

By Paul Wintrey in Moscow

SOVIET parliamentarians yesterday refused to confirm Mr Vladimir Kamentsev as head of the state Foreign Economic Commission, in a stark rebuke to Prime Minister Nikolai Ryzhkov and President Mikhail Gorbachev. The post carries with it the added title of Deputy Prime Minister.

Mr Kamentsev, who accompanied Mr Gorbachev on his recent visit to Britain, was Mr Ryzhkov's personal nominee for the job. He is the first senior minister to be rejected by the new Soviet Parliament, although several ministers have failed to be approved by committees.

In a heated debate preceding the vote, Mr Kamentsev was accused of nepotism and incompetence. Describing the country's foreign trade situation as "disastrous," a Leningrad Deputy, Mr Anatoli Sobchak, called Mr Kamentsev was an incompetent who had found cushy jobs for his relatives in his ministry.

"I feel he does not have the moral and professional right to occupy this post," he said.

Under the political structure which Mr Gorbachev inherited from his predecessors, Soviet ministers and deputy ministers were routinely confirmed by the Supreme Soviet in "unanimous" votes. But the new 542-member Supreme Soviet, the first to be chosen by the recently elected Congress of People's Deputies, has the right to approve government ministers.

During three weeks of heated debate, the Parliament has approved most of the government's nominees, but many, like Mr Dmitri Yazov, the Defence Minister, have been subjected to unprecedentedly rough cross examination.

On Monday evening, Mr Yazov was approved in his post, but only after Deputies had heard him described as an opponent of perestroika who was too old for the job.

Last Friday, Mr Kamentsev failed to receive the 271 votes required to confirm him in his present post, which he has held for three years, but a loophole in the rules made the result invalid.

According to rules in effect last week, Deputies needed a majority of votes of all sitting members to be confirmed. On Monday evening, Deputies voted to change the rules deciding that a mere majority of those voting was adequate for confirmation.

In yesterday's vote, Mr Kamentsev received only 209 of the 418 votes cast, 117 voted against and 47 voted to abstain. Nineteen Deputies did not vote at all, thereby failing to give him majority.

Later, an ashen faced Mr Ryzhkov rejected the criticisms levelled at his deputy, but said he would respect the decision and nominate another candidate.

Gorbachev strikes revolutionary chords in France

The relationship has changed markedly since the days of De Gaulle, writes Ian Davidson in Paris

IN PRACTICAL and political terms, few people expect Mr Mikhail Gorbachev's current visit to France to match in significance his recent trip to West Germany. Yet France enjoys a long and politically resonant relationship with the Soviet Union, which is particularly evident in Bicentenary Year.

France cannot currently claim West Germany's unique *status at the frontier* between East and West, which gives the Bonn Government such a pivotal role in Mr Gorbachev's new diplomacy.

Not merely has the West German Government started to play an increasingly important and independent role vis-a-vis the Soviet Union, not least in the controversy over the modernisation of Nato's nuclear weapons; it has also shown more confidence in the peaceful consequences of perestroika than many of its Western allies. On both grounds, West Germany is eminently worth courting.

There was a time when France played a larger role in Soviet diplomacy, and for analogous reasons. Twenty years ago, when General de Gaulle was in power and France was the awkward member of the Atlantic Alliance, Paris was regularly courted by Moscow.

Even then the significance of the Franco-Soviet flirtation was at least partly histrionic. Despite De Gaulle's diplomatic sniping at what he regarded as the overbearing role of the United States, the Soviet Union never had reason to doubt, as in the case of the 1962 Cuban missile crisis, that when vital *interests were at stake*, De Gaulle would always line up with the US and with the West.

Since then France has largely abandoned the role of Gaullist trouble-maker. France retains its national nuclear deterrent, and it remains obstinately outside the integrated military structures of Nato.

But in recent years, especially since the election of President François Mitterrand, it has increasingly emphasised its political loyalty to the US and to Nato, as well as its commitment to the defence of its European allies, starting with West Germany.

Despite France's anomalous role in Nato, it has become one of the most orthodox defenders of Atlantic solidarity. If there is an awkward side to France's posture today, it is in its refusal to permit any of its national nuclear forces to be included in East-West arms control negotiations.

But this is an awkwardness which runs diametrically counter to Mr Gorbachev's ostensible objective of negotiating away all nuclear weapons.

If France today has a claim to a privileged dialogue with the Soviet Union, it is essentially for reasons opposite to those played on by Gen de Gaulle. For whereas De Gaulle did his best to obstruct the political integration of the European Community, France under President Mitterrand has become one of the motor forces behind closer European union; and France currently holds the chair in the Community's Council of Ministers.

For all these reasons it is hard for Mr Gorbachev to gain any special international leverage through his visit to France.

Elderly demonstrators in Paris, surrounded by posters of Mr Mikhail Gorbachev and clutching unpaid Russian bonds to their chests, appealed to the visiting Soviet leader yesterday to honour French loans made to the pre-revolutionary Tsarist regime, Reuter reports.

As Mr Gorbachev touched down for a three-day visit to Paris, dozens of protesters grouped outside the bourse demanding payment for the 70-year-old bonds. Some of their families lost fortunes in the 1917 revolution, and one protester said: "It's never too late to make amends."

Attracted by high interest rates, French investors pounced on the Russian bond market in the run up to the First World War. The loans, based on the price of gold, were seen as safe and by 1914 the French held bonds worth almost Fr16bn. Come the revolution, their nest-eggs shattered. Some 50,000 French citizens still hold bonds.

The group called Defence of Holders of Russian Bonds is calling for 15 per cent of the Fr16bn they now consider the bonds to be worth.

Indeed, it is striking that the high point of his trip is taking place in Strasbourg, in front of the multilateral assembly of the Council of Europe, after the conclusion of the strictly *bilateral* programme of meetings with the French authorities.

Nevertheless, France enjoys a unique historical and cultural position in the Soviet cosmology, partly because of the reference to the French Revolution, partly because of memories of apparently closer co-operation during the time of Gen de Gaulle.

Evidence of this special position has been produced in a public opinion poll on what Muscovites think of the French, which has just been published in Les Nouvelles de Moscou, the French-language version of Moscow News (itself an indication of the special place of the French).

According to this poll, more Muscovites are interested in the history and culture of France than in those of other countries: 18 per cent, compared with 16 per cent for the US, 10 per cent for Britain, and 7 per cent for Japan.

On the other hand, 93 per cent would choose to study the English language, compared with only 12 per cent for French.

The popular picture of France is agreeably stereotyped: 59 per cent associate it with women, 46 per cent with the Revolution, 30 per cent with wine, and 16 per cent with Concorde. Similarly, 58 per cent think the French are *bon viveurs*, 41 per cent that they are sociable, 40 per cent that they are witty. Only 7 per cent think the French are efficient, whereas 73 per cent think the Germans are efficient.

France's image as an industrial country is pronounced and traditional: 57 per cent identify it with the manufacture of beauty products, 28 per cent with clothing. No other Western country has such a clear industrial image: the US's top score is 46 per cent for weapons, while West Germany's is 19 per cent for shoes. Only Japan comes close, with 85 per cent for electronics and 52 per cent for cars.

Naturally, almost everyone (96 per cent) has heard of the French Revolution, and almost half know that its anniversary is celebrated this year. On the other hand, more Muscovites have a positive opinion of the French Revolution than of the Russian.

Asked if these revolutions improved the life of the people and contributed to progress, 68 per cent said yes to the former, but only 61 to the latter.

Only 9 per cent thought the French Revolution did more harm than good, but 19 per cent had a low opinion of the Russian Revolution.

Pilotless Soviet fighter crashes in Belgium

THE Soviet Union said a MiG-23 jet fighter which flew unmanned across Western Europe yesterday before crashing in Belgium suffered a technical malfunction during a training flight over Poland, Reuter reports from Moscow.

The official news agency Tass said the pilot had ejected, apparently over Poland, and was alive.

The aircraft hit a Belgian house, exploded and killed a resident after flying across Western Europe through Nato air defences.

Mr Guy Coeme, Belgium's Defence Minister, said two US F-15 fighters from the Dutch airbase of Soesterberg, who intercepted the MiG-23 over West Germany, had orders to shoot it down if its trajectory "had posed a manifest danger to a big urban area." The aircraft apparently carried no nuclear weapons, according to the Belgian ministry.

In the response from Moscow, Tass said: "Today, in one of the aviation units of the Northern Troop Group, a Soviet military pilot was forced to eject from his MiG-23 while carrying out a training flight over Polish territory because of a malfunction of the aircraft's technical system."

It added that the aircraft "continued its unmanned flight in a western direction and fell on Belgian territory." The Soviet Union was contacting the governments of the states through whose airspace the plane flew, Tass said.

Eyewitnesses reported several explosions after the jet crashed into a house in Bellegem near the French border, killing a 19-year-old Belgian man.

A spokesman for the West German air force's administrative headquarters said in Cologne that the MiG took off from Kolobrzeg in Poland, more than 600 miles from where it came down. Nato radar spotted it over Warsaw Pact territory and the two US F-15s were scrambled to intercept it after it entered West German airspace at an altitude of 38,000 feet.

It flew near the cities of Eindhoven in the Netherlands and Antwerp in northern Belgium.

About 150 people were evacuated from homes near the crash site because of the risk of further explosions.

Bundesbank caution keeps its best money supply a secret

By Haig Simonian in Frankfurt

NO, the best-kept secret in the West German Bundesbank is not how much its president, Mr Karl Otto Pöhl, earns (around DM500,000, according to insiders). Rather, the real surprise is its money museum, an inner sanctum within the carefully protected *Hauptkasse* (main cash) division, which is normally reserved for only the most favoured guest, and from which the prying eyes of visiting journalists are usually skilfully deflected.

Quite why the stunning collection of coins, banknotes and other tokens of money through the ages is kept so much in the dark is one of those examples of indecision that blight many big organisations. In the case of the Bundesbank, years of uncertainty as to how best to show off the collection has meant that in the end nothing has been done.

For those privileged enough to gain admission, a treat is in store. Rather than being grouped in boring horizontal cabinets, the Bundesbank's coins are displayed in wide Perspex pods dropping from the ceiling of a cool, dark blue room above the vaults which house the bulk of its treasures.

Take the ancient Greek Dekadrachma, a large, stunningly attractive coin showing a beautiful classical face pressed in unusually strong relief. *The single most valuable* piece in the collection, a similar coin was last auctioned in Switzerland for around SFr800,000 in 1974.

The Dekadrachma is just one of hundreds of precious items in the Bundesbank's collection, which spans two millenia from ancient Greece to Egypt, the *Mediterranean city states and* the patchwork of principalities that in the Middle Ages made up what is today's Germany.

Even the way the coins are displayed is unique. Coupled with attractive documentary material and maps, each group of about six coins is set in a Perspex plate, which is in turn linked to an elaborate vertical conveyor belt. A touch of a button moves the conveyor along, bringing another group of coins into view.

But the museum also includes other forms of "money" used in various parts of the world, ranging from strings of beads from the Maldives to the 1kg tablets of tea once carried in Tibet. Even feathers and salt are there. And what better way to brake the velocity of money at the inflation-conscious Bundesbank than the huge ring-shaped stone weighing 67kg which was a traditional symbol of value in one of the South Sea Islands?

Before the Second World War, the German Reichsbank employed 30 people in its money museum, which used to mount regular exhibitions. Such largesse is not possible at today's Bundesbank, as its staff of seven is kept busy enough administering and adding to its holdings.

For unlike the long-established note and coin collections at the Bank of England and the Banque de France, the Bundesbank's holdings also testify to West Germany's own fractured post-war development.

During the Second World War, *the treasures of the* Reichsbank – Hitler's central bank – were removed to protect them from the Allied bombers pounding Berlin. The *Bundesbank* reckons it only has about 10 per cent of the former horde. For while most of the gold coins, which form the core of its present collection, *found safety in the west*, the silver and other material was hidden in the east. Nothing has been seen of them since.

A *top-level* West German decision to boost the collection after the war means the Bundesbank has for years been trying to plug some of the gaps in its range. *The biggest boost* came in 1969, when it bought out a leading West Berlin banknote collector.

However, experience has taught the museum's managers, who have an unspecified annual acquisition budget, to *steer clear of* the saleroom in favour of striking deals with private collectors.

For buying at auction can sometimes cause upsets. Observers, *unaware* of the historical imbalance in the Bundesbank's collection, have sometimes been puzzled by its bids for seemingly simple coins, rather than more expensive gold items. The result has been to trigger unwarranted markups in the market in the belief that the bank was on to something.

Another section of the museum is devoted to the 20th century. The Bundesbank is obliged to replace damaged notes provided the claimant can produce at least 50 per of the damaged item. While some exhibits, like the banknotes salvaged from the washing machine, can be found all over the world, others have a particularly German ring.

Take the cabinet devoted to burned or heavily singed notes, which stands in eloquent testimony to the habit of many older German, used to a perpetual life during and immediately after the war, to stash away some spare cash up the chimney. Decades of affluence have led people to forget their hidden savings, and the bank now receives some 30 cases of damaged notes a day.

And for those younger Germans for whom inflation is just something out of the history books, there is a moving display of notes from the hyperinflationary early 1920s, when prices climbed almost by the minute.

With people carrying their cash in wheelbarrows rather *than wallets, the shortage of* paper for official banknotes became so acute that "money" could be printed on almost any scrap. The Bundesbank has *them all, culminating in the* 100bn mark note – the largest denomination ever issued in Germany – in silent but moving testimony to one of the key *factors behind the rise of the* Third Reich.

For almost a decade there has been a debate within the Bundesbank about opening the collection to the public. Staff shortages, concern about security and the need to find a more spacious home for the museum and its library beyond *the bank's immediate walls* prevented action from being taken.

That may all be about to change. An architectural competition last at last came up with a winning design for a new extension to the bank's present grey blockhouse, which will also provide a new home for *the money museum*. If Mr Pöhl and his senior colleagues give it the nod, the bank's treasures could eventually become visible to more than just a *privileged few* before another decade is out.

European Diary

West Germany

Labour crisis in Sweden

By Robert Taylor in Stockholm

SWEDEN IS suffering from a crisis of full employment which will worsen in the 1990s, according to a report published yesterday by the Labour Ministry. With an official average jobless figure of only 1.6-1.9 per cent (55,00 people) over the past 12 months, the lowest total since 1980, the country faces all the problems of a tight labour market.

In the first quarter as many as *63 per cent of industrial* companies reported a lack of skilled workers, but the shortage is also endemic in construction and the public services. Last year, *for the first* time in a decade, there was an increase in the number of hours worked – 2.6m hours, or 1.9 per cent.

There was a net increase of 62,000 workers in the labour market last year, the highest increase since 1975. As many as 85 per cent of Swedish *women are actively employed* (though many are part-time), compared with 54 per cent in 1960. The report points out that wage differences between the sexes *have grown less* during the nineteen eighties

However, the report estimates that around 500,000 adults between 16 and 64 in Sweden are outside the labour market because of industrial accidents, long-term sickness or taking early retirement.

The Government argues that workplace conditions must be improved to make jobs more attractive but also suggests the *social insurance system must* take an active role in returning people to the labour market.

The economic effects of having half a million idle is considerable. The report estimates that a cut of 10,000 in the number of people retiring early would mean a SKr20bn (£1.9bn) improvement in production or a 2 per cent increase in Sweden's gross domestic product.

Mrs Ingrid Thalen, the Labour *Minister, said she* doubted whether Sweden's *much-vaunted tax reforms to* come into force in 1991 would make much difference to the present labour market crisis. She thought improvements in *child care* facilities to encourage even more women to take up full-time employment, and a better workplace environment were necessary to improve the labour supply.

The report suggests there has been a marked rise in the number of Swedes under the age of 64 taking early retirement, with an increase from 273,000 to 346,000 over the past 10 years. This is expected to go up to 387,000 by 1993-94.

CHEMICAL COMPANIES WARNED TO BE MORE CAUTIOUS ABOUT INVESTMENT

Over-capacity threatens industry

By Peter Marsh

THE WEST European chemical industry may be taking an unrealistic view of future market growth and needs to adopt a more cautious attitude to future investments, Mr Edward Weilman, managing director of Chemical Bank, the US finance house, said yesterday.

Speaking in London at a Financial Times conference on the outlook for European petrochemicals, said that unless the sector modified its approach it might be heading for a period of over-capacity in the 1990s, leading to a decline in prices and profits.

Mr Weilman said the business had recovered strongly from the depressed conditions in the early 1990s. But this ought not to blind executives to the risks of gearing up to meet demand levels in the 1990s which might be unrealistic.

Unless investment projects were scaled back, there was the risk that "the dynamic balance" regarding supply-and-demand would be upset.

Mr John Turnbull, chief *executive of the petrochemi*cals and polymers unit at BP Chemicals, said the West European industry needed a certain amount of restructuring to *continue the upward change* in fortunes experienced by the sector over the past five years.

Some investment projects for the future were necessary, despite the *risk of over-capac*ity, on the grounds that a number of Europe's large chemical plants were aging and failing to operate at optimum technological efficiency.

In the area of plants to produce ethylene, an important *chemicals feedstock* obtained from natural gas and oil, Mr Turnbull said that three fifths of Europe's total capacity in this chemical was based on *plants more than 15 years old*.

Getting the pattern of investments in chemicals right would be essential, given the importance of the chemical industry as providing materials for a broad range of manufacturing businesses. "The petrochemical industry now occupies a strategic position in the total European industrial chain, in much the same way *that steel did in earlier times*," he said.

> 'The petrochemical industry now occupies a strategic position in the total European industrial chain, in much the same way that steel did in earlier times'

FT CONFERENCE
THE OUTLOOK FOR EUROPEAN PETROCHEMICALS

Mr Evert Henkes, managing director of Shell Chemicals UK, said the links between the oil- and gas-producing activities of large energy groups like Shell and their petrochemicals divisions would become increasingly important.

He foresaw greater emphasis on the petrochemicals units of these companies becoming *dependent on supplies of natu*ral gas and other gaseous products from the oil-refining arms of the energy groups. This was because of the possibility of shortages developing in liquid feedstocks from oil refining – such as naphtha – which was likely to be in increasing demand to feed into operations to produce gasoline.

Mr Ibrahim Ibn Salamah, vice-chairman and chief executive of Saudi Basic Industries Corporation (SABIC), said his company had come of age in recent years and was now gearing up to be a significant operator in the international chemicals business.

SABIC, Saudi Arabia's main industrial holding company for petrochemicals, is a big supplier of many basic chemicals from plants in the Kingdom, and last year had sales of about $3bn.

Mr Salamah said the performance of his group had proved wrong the predictions of some observers who said that Saudi Arabia could never operate a large petrochemicals business *successfully and profitably*.

The group aimed to step up its activities around the world, either through joint ventures or direct marketing operations, and was *particularly interested* in expanding in Europe and the Pacific basin.

Continuing the theme of whether the industry is heading *for overcapacity in the* 1990s, Dr Philip Leighton of Trichem Consultants, a chemicals consultancy, told the conference that the sector was *building too many* plants to make a particular plastic – polypropylene.

This material, widely used in products such as packaged goods and consumer items, has been experiencing demand growth of around 10 per cent per year in *Europe* in recent years. Dr Leighton doubted, however, whether the growth would continue at this rate. Chemical companies were *being over-enthusiastic in plan*ning new propylene plants, with five new plants already *having been built on the Conti*nent in recent years and several more to come.

The falling off in demand growth, added to the extra capacity from the new production units, boded ill for the future, he said.

He added that the sector was already experiencing a *dramatic decline* in polypropylene prices and margins and that the market in Western Europe was likely to suffer an overcapacity of several hundred thousand tonnes a year of the material in the early 1990s.

In a section of the conference devoted to the availability of oil and gas feedstocks which are used by production plants involved in many kinds of chemicals, Mr Gilbert Chikelu, director general of Nigeria's Ministry of Petroleum Resources, said oil and gas supplies were settling down to a period of stability after some years of turmoil.

Few had escaped unscathed *from the conflicts in the inter*national oil market over the past decade.

"We believe that the present general level of oil prices at *between $18 and $20 a barrel*, provides a sound basis for stability since it appears to have won general acceptance from operators in most key sectors *of the industry*," *he said*.

Mr Stanley Johnson, an environmental adviser to the European Commission, said the West European chemicals industry would have to get used to a period of growing involvement by both the public and state agencies over the next few years in determining suitable levels of protection for the environment.

The Commission would be *attempting to work with indus*try on ensuring that sensible rules regulating the sector's activities related to environmental emissions and waste *products were implemented* in the coming decade.

Saudi Arabia joint ventures, Page 6.

Japan and Switzerland are favourite in which to do business

By William Dullforce in Geneva

JAPAN AND Switzerland provide the best home bases for businessmen, or, to use the language of the World Competitiveness Report, their national environments are most conducive to the domestic and global competitiveness of enterprises.

In the ninth annual edition of the report, published today, the US maintains third position and Canada moves up from sixth to fourth place, ahead of West Germany. Singapore emerges as the leader among the newly industrialised countries, which are ranked separately, just ahead of Hong Kong and Taiwan.

The 250-page report, compiled by Imede, the Lausanne-based business school, and the World Economic Forum, which runs the annual businessmen's meeting in Davos, uses 292 criteria to assess and rank the international competitiveness of 32 countries.

The hard data, run through Imede's computer, are supplemented by the subjective assessments of nearly 2,000 *international executives* who each answered 112 questions.

Its publishers do not claim that the report is fully scientific. But, by raising the number of criteria from that used in the past they believe that they are offering a "high-definition image" of international competitiveness.

Japan leads the pack of 22 industrialised countries, scoring top marks for economic dynamism, industrial efficiency and innovation. The Swiss are helped into second place by top placings for financial dynamism, social and *political stability*, lack of state interference and the international orientation of their companies.

Leadership in market dynamics and human resources keeps the US in third place, but West Germany loses ground because of heavy management and labour costs, lack of labour flexibility and an ageing population.

Of the other European Community contenders, the Netherlands ranks sixth and Britain eleventh, immediately followed by Denmark, France and Belgium/Luxembourg.

The separate scoreboard, which reflects business executives' views on competitiveness, keeps Japan and Switzerland at the top but reshuffles the other placings and offers some insights into regional prejudices. The Netherlands moves into third place with West Germany fourth and the US fifth.

Answering the question: "In your opinion which are the three most competitive countries?" businessmen in the Anglo-Saxon countries did not put Switzerland among the top 12, whereas their colleagues in northern and southern Europe and in the Far East respectively placed the Swiss fourth, seventh and ninth.

South Korea was ranked by Far East executives as the second most competitive country behind Japan, while the other three regions all had the Koreans in fourth place.

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OVERSEAS NEWS

Howe urges Peking to help rebuild HK's confidence

By John Elliott in Hong Kong

SIR GEOFFREY HOWE, the British Foreign Secretary, last night marked out the next phase of the UK Government's policies on Hong Kong when he called on China to help rebuild the colony's battered self-confidence by "applying itself to an active agenda of deeds not words."

China should change the way it "treated its own people," as well as meeting Hong Kong's aspirations for a faster pace of democratic development and for increased human rights, he said.

Peking should also give up its plans to be able to declare martial law and station large numbers of troops in Hong Kong after it regained sovereignty in 1997.

This attempt to deflect public attention away from the UK and on to China came at the end of Sir Geoffrey's three-day visit to Hong Kong.

He also visited two detention centres for Vietnamese boat-people yesterday and said he thought an agreement would be reached soon with the Vietnamese government for the gradual repatriation of some 39,000 would-be refugees who are expected to be classified by Hong Kong as illegal immigrants.

Sir Geoffrey's visit has been dominated by the debate over British passports. He has angered local political and community leaders because he has rejected their demands for the UK to issue British passports to at least 3.24m Hong Kong people.

Dame Lydia Dunn, senior member of the colony's executive council, was scathing in her criticism of Sir Geoffrey because, she said, he had talked mainly about Britain's problems over the passports issue, rather than proposing a solution.

She said the UK's plans to give passports to selected groups of people would be "divisive and very difficult to defend."

But Sir Geoffrey believes that he has begun to persuade local leaders that it is impossible for the UK to meet their demands for passports for all.

More than 10,000 marchers attacked the Chinese Government last night during demonstrations marking the first month since the Tiananmen Square massacre.

More than 5,000 marched slowly past the residence of Sir David Wilson, the governor, while Sir Geoffrey was having dinner. They chanted Chinese democracy songs and delivered a petition calling for Britain to lead international sanctions against China.

Sir Geoffrey said he would concentrate on seven points following his visit. These were: the early announcement of a selective passport scheme; harnessing international support for Hong Kong and opposing sanctions against China which would harm Hong Kong's trade; introduction of a Bill of Rights; accelerating the pace of democratic development; strengthening the draft Basic Law which will become the mini-constitution in 1997; urging Peking to take "early and tangible action" to restore Hong Kong's confidence; and working on a repatriation agreement for all the Vietnamese boatpeople, not just those who volunteered to return home.

Refugees from Vietnam hold up protest banners at Hong Kong's Whitehead refugee centre during yesterday's visit by Sir Geoffrey Howe, the British Prime Minister.

Singapore warns of Cambodian sell-out

By Peter Ungphakorn in Bandar Seri Bagawan

SINGAPORE issued a stern warning to its neighbours yesterday not to allow Cambodian peace talks end in victory for the Vietnamese.

Mr Wong Kan Seng, Singapore's Foreign Minister, speaking at the end of the annual two day meeting of foreign ministers of the Association of South East Asian Nations (Asean), said a settlement that left "the regime installed by the Vietnamese in Phnom Penh" would make "a mockery of the results of Asean's ten years of solidarity and effort to undo the Vietnamese invasion of Cambodia". It would be a moral and political tragedy, he said.

His comments were apparently directed at Thailand, whose Prime Minister, General Chatichai Choonhavan, recently broke with Asean tradition and invited Mr Hun Sen, Prime Minister of the Vietnamese-backed Cambodian Government, for informal talks in Bangkok. Singapore believes too much haste would mean capitulation to the Vietnamese.

Mr Wong did not mention Thailand by name, but his words were unusually direct for an occasion normally devoted to diplomatic pleasantries.

Officially Asean is unified in approving the French attempt to bring together next month the four warring Cambodian factions, their various supporters, Asean, Japan and representatives of the non-aligned movement. The conference would follow meetings scheduled for July 24 and 25, also in Paris, of the Hun Sen Government and the three resistance forces including the Khmer Rouge.

Asean's six members - Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand - are seeking the complete withdrawal of Vietnamese troops from Cambodia; verification of the withdrawal and supervision of a ceasefire preferably by a UN force; an interim government with equal participation by all four Cambodian factions, headed by centrist Prince Norodom Sihanouk; free elections; and the peaceful repatriation of refugees.

Mugabe party faces close result in by-election fight

By Tony Hawkins in Harare

POLITICAL analysts predict a close vote in tomorrow's Dzivarasekwa by-election in which President Robert Mugabe's ruling Zanu-PF party is being opposed by the new Zimbabwe United Movement led by Mr Edgar Tekere.

Police have banned all ZUM rallies in Harare and the government-owned media has launched a vitriolic attack on Mr Tekere, a former secretary general of Zanu, accusing him of being a traitor and of seeking to establish a coalition with white supporters of former Rhodesia Prime Minister Ian Smith.

This backfired when a former Smith Cabinet Minister, Mr Andre Holland, appeared as a speaker at a pro-government rally at the weekend.

To judge from the bitterness of the government and media attacks on ZUM and the feverish political activity by party heavyweights at the weekend, Zanu politicians are seriously worried that they could lose the seat.

Mr Mugabe has already warned that the government cannot afford to lose the constituency, despite the fact that it has virtually no opposition in parliament.

It is clear that the government has lost considerable support recently. It was severely embarrassed when five ministers were forced to resign earlier this year after being accused by a judicial commission of profiteering in illegal vehicle sales.

Last month's swingeing food price rises, rising unemployment, and mounting anger among Harare commuters at the city's overstretched bus service are thought likely to generate a substantial protest vote.

Some 64,000 people are eligible to vote in the by-election but a low turn-out is expected. The result will be declared on Thursday.

Muted uptake to Lebanon ceasefire offer

By Lara Marlowe in Beirut

Three of six crossing points between Beirut's Christian enclave and the rest of Lebanon reopened yesterday following a unilateral ceasefire offer by Syria's Moslem militia allies.

Both the ceasefire proposal and Iraq's announcement that it would halt arms transfers to Lebanese Christians were seen as possibly hollow assurances of co-operation in response to Soviet and Arab league diplomatic pressure.

Syria is maintaining its naval blockade of Christian ports, and Christian army commander Gen Michel Aoun continues to refuse to discuss political reforms.

Syrian and Christian Lebanese gunners continued shelling across the city early yesterday, killing one person and wounding five others. The re-opening of Beirut's international airport was postponed for at least another twenty-four hours.

Shamir takes on right over his peace proposals

By Hugh Carnegy in Jerusalem

ASSUMING an unaccustomed role for such a pugnacious politician, Mr Yitzhak Shamir, Israel's Prime Minister, tonight takes on the task of facing down heavy right-wing opposition within his own Likud party to his peace proposals for the occupied territories.

The plan's opponents, with the imposing figure of Mr Ariel Sharon, the Trade and Industry Minister, at their head, have denounced the initiative as a threat to Israel's security. They want the special meeting of the 2,600-strong Likud central committee to force Mr Shamir to graft conditions onto the already fragile plan that would almost certainly kill it by making it unacceptable to the Palestinian side.

Mr Shamir, apparently confident of winning majority backing for his position, has refused to accept any changes. He and his aides have repeatedly stated that the peace plan, which proposes elections in the West Bank and Gaza Strip leading to interim Palestinian self-rule and negotiations on a final settlement, has been endorsed by the coalition government and parliament and cannot now be amended by a political party.

The outcome will be watched with acute interest by the Palestine Liberation Organisation, local Palestinians and the US. Even if Mr Shamir wins the confrontation, they will scrutinise his speech to see if he has to harden his position to do so.

News that Washington has recently upgraded its contacts with the PLO has added fuel to the Likud opposition's charges about the dangers of the peace plan, despite strong denunciations of the move by Mr Shamir.

The build-up to the meeting was dominated by wrangling over the agenda. Mr Shamir wants a simple endorsement of his opening speech.

Thai power industry board row defused

By Roger Matthews in Bangkok

THE Thai government yesterday signalled the end of a bitter political row over the board composition of the country's electricity generating authority by removing the minister responsible and reinstating members sacked last week.

It was the first serious political setback for Gen Chatichai Choonhavan since he became prime minister nearly 11 months ago and seems certain to stiffen other state enterprises' resistence to similar government intervention.

Union leaders, who on Monday night had seemed to be losing control of some striking members, secured a widespread return-to-work today and troops were taken off alert for possible power cuts.

The need for greater efficiency and competitiveness in the 70 or so state companies through some form of privatisation has been a recurring theme of successive Thai governments.

Some politicians, however, believed it was ill-judged to choose for battle the electricity board which, apart from being the most powerful industry, is widely considered to be one of the better managed.

Some ministers suggested yesterday that the sackings had not been properly presented or debated in Cabinet and the decision was a personal initiative of Mr Chalerm Yoobamrung, the Minister in Gen Chatichai's office. The prime minister has now assumed responsiblity for the industry in place of Mr Chalerm who remains in the Cabinet.

The new board, the third put forward in less than a week, is a compromise between conflicting political interests. The permanent secretaries from several ministries have been nominated instead of senior military officers as earlier proposed.

Uno determined to attend Paris summit

By Ian Rodger in Tokyo

Mr Sousuke Uno, Japan's beleaguered prime minister, yesterday expressed his determination to attend the summit of leading industrialised nations in Paris next week.

In a speech he told trade union leaders that he would go despite calls for his resignation following his party's big setback in Tokyo city elections on Sunday.

Mr Uno's status as a lame duck leader after only one month in office will be underlined today as the election campaign for half the seats in the House of Councillors, the upper house of the Diet (Parliament) gets underway. The election is on July 23.

Other leaders of the ruling Liberal Democratic Party have ordered Mr Uno not to participate in the campaign, because they fear the recent bad publicity surrounding his affair with a geisha four years ago would cause further damage to the party's chances.

According to one poll published yesterday, only 17.6 per cent of voters support the Uno cabinet while 73.2 per cent are against it. These ratios are more important than in other elections because 50 of the 126 seats being contested will be chosen on the basis of party shares of the vote at national level.

The LDP must win at least 54 of all the seats being contested if it is to maintain its majority in the upper house, but most forecasters believe it will win only about 45.

● Cabinet ministers published details of their assets yesterday in line with new LDP guidelines aimed at restoring public trust in the party after the Recruit bribery scandal. Under the new guidelines, the assets of the dependents of ministers must also be disclosed.

Mr Uno, the prime minister, ranked second on the list, with family wealth of Y301.29m(£1.4m) on June 3.

Chinese youth see foreign study as passport to hope

Peter Ellingsen in Peking looks at disillusionment behind the small mountain of visa applications

PUBLICLY, in awkward street interviews and workplace political sessions, the young people of China are toeing the party line and endorsing the crack-down on free expression.

But privately, in whispered conversations and growing interest in foreign travel, there are signs of disillusionment and apprehension about the future. Nowhere is this more plain than behind the electrically-controlled gates of Peking's Australian embassy where a small mountain of mail says more about what many young Chinese are feeling than a Tiananmen Square full of didactic statements.

In a room normally used for entertainment, scores of plastic mail bags testify to the desire of some 30,000 Chinese wanting to study in Australia. The bulky visa applications have been arriving by the truckload since the army marched into the capital a month ago in a brutal supression of democracy campaigners.

The embassy has been closed and senior student visa staff evacuated in the wake of the massacre, but that has not stopped an avalanche of applications piling up. It is an impossible burden for the 10 or so staff manning the cramped student section, but with anxious Chinese on the phone every day, they are aware of the urgency of the requests.

So far they have managed to deal with about 1,000 applications a month. At that rate the backlog will take years to process. "We've never had to process 30,000 visa applications before," an embassy official explained, "so I just don't know how long it will take."

The applications represent twice the total number of Chinese students studying English in Australia, and a huge increase to the figure that was expected to apply this year. Last year about 10,000 student visas were processed, with most of the recipients finding their way into six-month English courses in capital cities. With Australia considered a popular destination, the embassy anticipated additional applications in 1989 but nothing like the number that have arrived since late May.

With air fare, tuition and living expenses it costs about $9,000 for the short English courses, (an enormous amount in China), but that has not deterred young Chinese desperate to both improve their English and escape repressive measures now being enforced by hardline leaders. The task of leaving China has been made even more difficult by the decision to invalidate visas issued before June 20.

In a move designed to intimidate prospective travellers and trap people who may have participated in democracy protests, those wishing to study abroad must have approval from their local party committee. The number of visa forms, with health checks and Chinese passports attached, is just short of the 40,000 student visas processed since 1986, and represents valuable export earnings for Australia.

But the delays will mean many students will not be able to begin courses this year, and will have to defer to 1990, which will involve further lengthy paperwork and consultation with Chinese security authorities. a number of the western embassies in Peking have long lines of young Chinese queuing to obtain a visa.

Canada, Britain, and the US are popular but Australia is preferred because of the easy access to its short English courses. Embassy staff say they cannot cope with numbers wanting information about courses and visas. When student section phone lines open for queries at 3pm, it is impossible to get through, according to staff who have issued around 5,500 visas already this year.

Few Chinese personally come to the Australian embassy, not only because the iron gates are closed, but because machine gun-totting troops have camped on the road outside.

Gandhi opts for tactical reshuffle

By K K Sharma in New Delhi

WITH both eyes fixed firmly on the coming parliamentary elections, Mr Rajiv Gandhi, India's Prime Minister, yesterday made minor changes in his Government. But by carefully not appointing any new Cabinet minister, he made sure that no aspirant for promotion was dissatisfied.

Two senior vacancies in the main Cabinet – caused by the recent death of Mr Bir Bahadur Singh, the Communications Minister, and the posting of Mr Votilal Vohra, the Health Minister, to the key Hindi state of Madhya Pradesh – were filled by allotting the charges to junior ministers.

Mr Gandhi has preferred to pay it safe. The only changes announced were the promotion of five Deputy Ministers to the rank of Minister of State, each of them having got independent charge of their portfolios. Only one appointment is relatively important, that of Mr D.L. Baitha as Minister of State for Defence Production in place of Mr Chintamani Panigrahi who was recently elevated to a Governor's post.

With the changes, Mr Gandhi has abolished the post of Deputy Minister. The Government is now made up of Cabinet Ministers and Ministers of State, the two-tier level of 1985 when he became Prime Minister.

Four of the five promoted Ministers of State belong to Hindi-speaking States in the vital northern political belt.

OVERSEAS NEWS

Akol joins the 'Boys' Republic' of orphans in the Horn of Africa

Julian Ozanne catalogues a refugee problem arising from wars, persecution, natural disasters and economic collapse

MOST PEOPLE were asleep in their huts when government-backed Arab militiamen on horseback surrounded the village of Wajok in Bahr Ghazal province, Sudan.

From his post in the cattle camp 10-year-old Akol Deng Wol watched as the raiders, armed by the government in the six-year-old civil war, rounded up villagers. Akol's mother and father and most of the adults were herded into a grass-thatched cattle shelter. The militia closed the door so no-one could escape and burnt it down.

The children and the cattle, to be sold to wealthy Arab traders in the north, were gathered up. Akol's three-year-old sister and other small children who could not be carried were dumped into large wooden mortars. The militiamen seized the heavy logs used for pounding maize and crushed the infants to death.

Like thousands of children across the African continent Akol decided to run. He had no idea where he was going except in the opposite direction of where the raiders came from on their government-backed mission of genocide against the Dinka tribe, the main supporters of the rebel Sudan People's Liberation Army. For four months he trekked west through the Sudanese bush linking up with other boys on the run, pursued by the militia, hostile tribes and wild animals, barely surviving on leaves and wild fruits.

Eventually, by chance, he arrived a naked emaciated skeleton at the Sudan-Ethiopia border and was directed by Ethiopian officials to Fugnido where a refugee camp was taking shape under the United Nations High Commissioner for Refugees. Since December 1987 the deserted land at Fugnido, on the banks of the Gilo river, has boomed into a refugee camp of 54,000 – about 40 per cent unaccompanied minors.

At its peak in March this year the camp was receiving 4,000 new arrivals a month, many of them orphans. For this reason, and because the

IN SEARCH OF REFUGE

camp is only three per cent female, it has been nicknamed "the Boys' Republic".

Wars, political persecution, tribal conflict, deteriorating economies and natural catastrophes across Africa have triggered the exodus of at least 5m refugees – 40 per cent of the world's total. Countless more millions have been uprooted from their homes and internally displaced.

In the Horn of Africa alone there are an estimated 2.3m people who have fled across the frontiers of their country of origin. There are Ethiopians in Sudan, Somalia and Djibouti; Sudanese in Ethiopia and Uganda; Somalis in Djibouti and Ethiopia.

Each of the countries in the Horn, some of the largest in Africa, have on-going civil wars caused by religious and tribal conflict and economic discrimination. Without doubt, in Africa this is the single largest cause of refugees.

"The Horn is an extremely explosive area," said Mr Kingsley Amaning, a UNHCR official with four years experience in the region. "It has a lot of essentially incompatible ethnic groups and nomads and some of the worst drawn colonial borders. The attempt to create an artificial national unity has inevitably broken up into conflict and tensions, guerrilla wars and the gaze by governments towards pieces of territory technically held by their neighbours.

"As state power expanded and began to affect more and more people, conflict between group demands and differences and national demands escalated. Refugees are generally created by a breakdown in political and civil order either between states or within states. Such a process is a sad but intrinsic part of nation-building," he said.

The most clear-cut example of this is Sudan plagued by civil war for 15 of its 33 years of independence. For nearly 60 years the British colonial administration kept the mainly African and Christian south politically, culturally and economically separate from the Arab, Moslem north under the so-called "Southern Policy".

Movement between North and South was rigidly restricted by permits and "closed districts" and English was used as the official language in the south, Arabic in the north. For a short time the British considered, but rejected, making southern Sudan part of an East African federation. On Independence Day in 1956 two completely different nations were thrown together as one.

As the Arab north started to assert its economic and cultural dominance over the south the civil war intensified, sending refugees over the border into Uganda and Ethiopia. A peace agreement in 1972 offered a brief respite and many refugees returned home. But in 1983 the war flared up again as the northern government tried to impose fundamentalist Islamic law on the south. Many of the returnees of 1972 fled again.

While most of the refugees tell gruesome tales of brutality on the part of the army and government backed militia, many people who have fled from the eastern Equatoria region tell similar stories of the scorched earth policy of the SPLA, which they accuse of being dominated by the Dinka tribe and bent on tribal persecution. Some eastern Equatorians have fled into Uganda but most have taken refuge inside Sudan in cities such as Juba and are therefore not officially classified as refugees.

In Ethiopia the 28-year-old Eritrean civil war which has sent hundreds of thousands of civilians sprawling into Sudan is rooted in years of separate development under the Italians and deep-seated differences in language and traditions.

Whenever things in the Horn seem to be settling down a new conflict or disaster appears, throwing thousands of people into exile. Last year thousands of Somalis, mostly of the Isaac tribe, started pouring into eastern Ethiopia in record numbers of 4,000 a week as a small scale guerrilla conflict rapidly escalated into full-scale warfare and the state started carrying out widescale tribal persecution.

For Africa's impoverished people there seems little hope of a respite from conflict. Many of the causes of refugee exoduses, in particular tribalism, show no signs of waning. Last year Burundi, the scene of a brutal tribal massacre in 1972 which claimed more than 100,000 lives, was once again thrown into a tribal bloodbath.

Only in one country in the region, Uganda, has there been any signs recently of a optimistic turn around for refugees. Since President Yoweri Museveni took power in 1986 most of the 350,000 refugees who fled the bloody years of tribal and civil warfare under President Idi Amin and President Milton Obote have returned home, albeit slowly and cautiously.

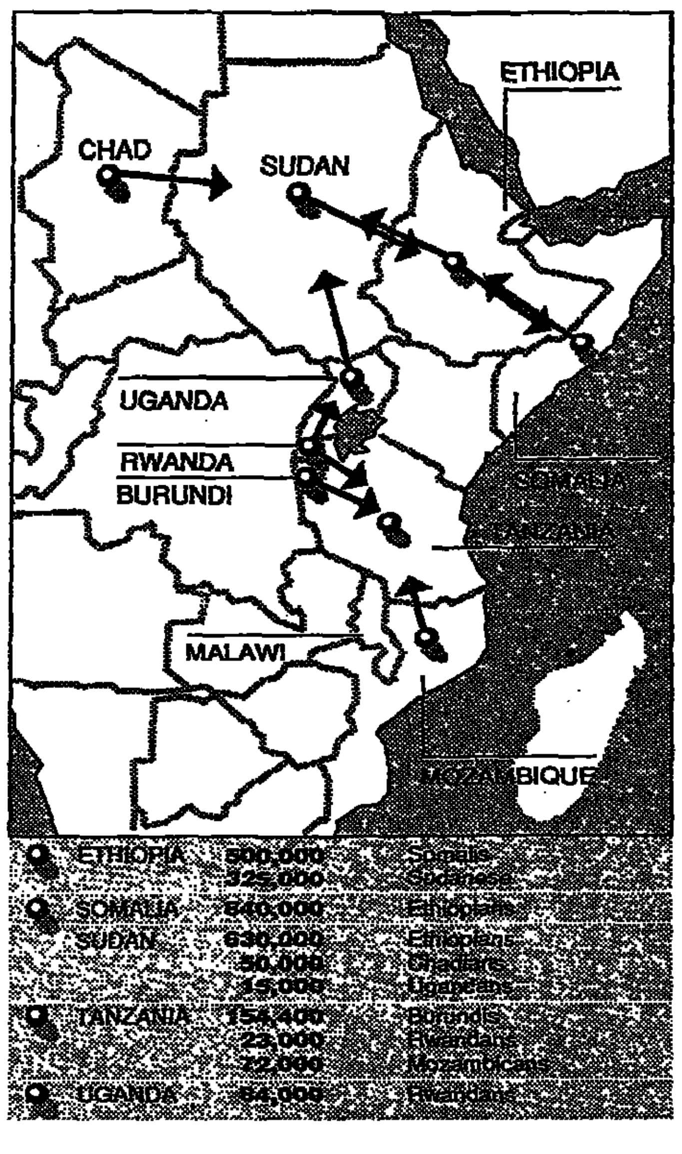
Many parts of Uganda remain unsafe as the civil war drags on. But the slow and arduous search for a political solution in that country which reconciles conflicting interests may offer the only hope for refugees like Akol to return in peace to their family and home.

This article is part of a Financial Times series on refugee problems around the world. Previous articles in the series appeared on Tuesday June 13 and Saturday July 1.

WORLD'S BIGGEST REFUGEE POPULATIONS

COUNTRY	NUMBER	FIRST REFUGE
Afghanistan	5,751,000	Pakistan, Iran, India, Kuwait
Israel/Palestine	2,268,000*	Jordan, Gaza, W Bank, Lebanon
Mozambique	1,150,250	Malawi, S Africa, Zimbabwe, Tanzania
Ethiopia	1,122,350	Sudan, Somalia
Iraq	470,000	Iran, Turkey
Angola	400,000	Zaire, Zambia
Somalia	400,000	Ethiopia
Cambodia	335,800	Thailand, Vietnam, Philippines
Sudan	301,000	Ethiopia, Uganda
Burundi	244,000	Tanzania, Rwanda, Zaire
W. Sahara	165,000	Algeria
El Salvador	152,000**	Mexico, Honduras, Nicaragua
China (Tibet)	100,000	India
Philippines	90,000	Malaysia
Sri Lanka	85,000	India
Iran	80,100**	Pakistan, India
Laos	78,500	Thailand, Philippines
Namibia	77,850	Angola, Zambia
Vietnam	68,520	Thailand, Hong Kong, Philippines
Chad	63,500	Sudan, Cameroon, Central African Repb
Nicaragua	55,300*	Honduras, Costa Rica, Guatemala
Zaire	54,900	Tanzania, Angola, Burundi, Zambia
Bangladesh	50,000	India
South Africa	28,800	Angola, Swaziland, Tanzania

*Number registered as refugees of 4m Palestinians in exile
**Many more unregistered in central and N America
Source: US Committee for Refugees, November 1988



Growth rates of Asian economies expected to slow

By Our Foreign Staff

THE DOWNTURN in the world economy will result in a slowdown of growth in the booming economies of Asia over the next 18 months, according to an analysis by the Asian Development Bank published in Manila yesterday.

It said that overall growth among Asia's developing countries in 1989 and 1990 would decline to 6.8 per cent, compared with a rapid 8.9 per cent last year.

"Growth rates in all industrial countries are expected to decline in 1989 and 1990," the report said, with the level of growth in world trade following suit.

"However, the region will experience substantially higher growth in trade than will other regions, including the industrial countries, as intra-regional trade continues to increase," the bank said in its 1989 Asian Development Outlook.

"Higher interest rates could dampen the strength of business investment in 1989 and 1990, as well as exacerbate the debt problems of the developing countries, including those in Asia."

The bank forecast that world interest rates would peak in late 1989 and move slowly down in 1990.

It said ADB member countries were increasingly worried by the trend towards protectionism among industrialised states. "Keeping this in mind, it is important to ask whether Asia can rely on an export-based development strategy for the future, as it has so successfully done in the past," the report said.

It said export growth in 1989 and 1990 would decelerate as economic activity in the industrialised countries slowed.

But the opening and expansion of Japan's domestic market and the continued growth of imports by the Asian Tigers – South Korea, Taiwan, Hong Kong and Singapore – would partially offset the impact on Asian exporters of the slowdown in the United States and Europe.

It forecast gross national product growth in south-east Asia would average six per cent in 1989 and 1990, against seven per cent last year. Growth rates in south Asia would average five per cent, against almost eight per cent in 1988.

Foreign investment to the Asian region was expected to continue to grow, helping trade within the region, it stated.

The slowdown in growth in Asia's developing countries was exacerbated by falls in growth rates in the two largest developing countries, India and China.

"If they are excluded, the performance of (Asian developing states) is projected to be only marginally lower in the next two years than it was in 1988," the ADB said.

The report was written before the latest turmoil in China, but it said that China's industrial growth was expected to slow to around 11 per cent a year during the period from around 20 per cent in 1988.

Bus bombing kills seven

By Christina Lamb in Islamabad

PAKISTAN government officials fear a destabilisation campaign may be behind the bomb explosion on a bus in the town of Peshawar which killed at least seven people and injured more than 50.

It was the latest in a series of bombings that have hit the town in the last three weeks, killing several people. On Sunday, a mujaheddin commander was shot dead in the town.

Peshawar, 40 miles from the Afghan border, is the headquarters of the Afghan resistance and home to more than 800,000 refugees.

Locals believe the bombings to be the start of a stepped up campaign by the Afghan Government to put pressure on Pakistan to give up its support for the resistance.

AMERICAN NEWS

Mexican election results in doubt

By Lucy Conger in Morelia, Mexico

POST-ELECTION statements by leaders of Mexico's ruling Institutional Revolutionary Party (PRI) leave open the possibility that it could lose a state governorship and fail to gain a majority of a state congress for the first time in the regime's 60-year history.

Official results of the ballot on July 2 in the governor's race in Baja California and the congressional contest in Michoacan – states lost by the PRI in the 1988 presidential elections – will not be released until Sunday.

In Baja California, PRI and right-wing National Action Party (PAN) officials say they lack sufficient returns to claim victory.

In Michoacan, PRI said on Monday that "tendencies" in the vote show PRI candidates leading in 11 congressional districts, a result that would give PRI only the bigger share of seats in the congress.

The left-wing Party of the Democratic Revolution (PRD), which pre-empted PRI by releasing the first preliminary returns, issued results on Monday from 51 per cent of the polling places which show PRD winning in 13 districts.

Abstentions of nearly 70 per cent in the Michoacan congressional elections were lower than in previous state congressional races, PRD reports.

In Michoacan, PRI won the race for grabbing headlines. At noon on Sunday, all telephone lines to the state's most impartial newspaper, La Voz de Michoacan, were severed, cutting off the paper's communication with reporters at peak voting hours.

"The telephone technician told us it was not an accident, but an intentional act which delayed Monday publication by four hours," said Mr Rogelio Guzman, director general of La Voz, which has given more coverage than other newspapers to opposition parties The result was that on Monday the only paper on sale, El Sol de Morelia, ran a headline claiming advantage for PRI in 10 districts.

PRI will make no more announcements while awaiting final results. PRD will continue to release returns and may file formal protests of electoral irregularities.

Policy differences put Fed vacancy under spotlight

By Peter Riddell, US Editor in Washington

THE US Federal Reserve's policy-making open market committee, which meets today and tomorrow, is faced not only by divisions about whether to reduce interest rates but also by a key vacancy.

The resignation two weeks ago of Mr Robert Heller, who had been the Fed governor responsible for international issues, has brought to the surface the frustrations of many Bush administration officials with what they see as the excessively restrictive monetary stance of the Fed.

Consequently, lobbying has begun for the appointment of a governor who will support policies sustaining economic growth and not be too concerned by inflationary pressures. Many conservative Republicans have traditionally regarded the Fed as too concerned with pleasing Wall Street and international opinion and not sufficiently with ordinary American Main Street.

Within the Fed some officials would like to see a governor appointed with substantial international experience – in the mould, say, of the late governor Henry Wallich.

The debate over the successor to Mr Heller, who is leaving the Fed for financial reasons, is unlikely to be resolved for several weeks, and possible months. It is significant because Mr Heller had been arguing that inflationary pressures were under control and therefore favoured an easier, rather than a more restrictive, monetary stance.

He also had one of the seven places on the 12-member open market committee permanently occupied by the Washington-based Fed governors. The remaining places are taken in rotation by five of the 12 regional Fed presidents, though the New York president, who runs market operations, is also permanent.

There has been a division between the Washington-based governors, several of whom have felt that inflationary pressures were not accelerating, and most regional presidents who have remained worried at the pace of price increases and have supported continued restriction.

Mr Alan Greenspan, the Fed chairman, has carefully balanced these arguments and the shifting evidence of economic indicators, which have increasingly pointed to an economic slowdown in the US since the winter but have also shown a clear pick-up in inflation.

His instinct has been for consensus and until early last month the Fed maintained a wait-and-see approach, continuing restriction. This produced increasing irritation within the Administration, especially as the dollar strengthened.

After a series of stalemates in discussions among Fed governors and presidents, clear-cut evidence of an economic slowdown tilted the balance four weeks ago in favour of a slight easing of policy.

A rose with thorns for Guatemalan exports

David Pickles examines the pros and cons of a proposed World Bank $80m deal

AFTER four years of on-off negotiations, Guatemala is on the brink of an $80m export promotion deal with the World Bank, which will mean a sharp cut in protection for industry.

The tariff cutting programme will start in July, and aims to get maximum nominal protection down to 40 per cent for most goods inside three years.

The most vulnerable sectors of footwear, textiles and leather goods will be given two years' extra breathing space.

Other parts of the deal are a drawback *(maquila)* law, which finally passed the Congress in May, and a revision to the Free Trade Zone law, to allow for privately run zones.

Though not formally labelled a Structural Adjustment Loan (SAL), the Guatemalan programme is a rose by any other name. Three quarters of the funds will go to improve the precarious international reserves position, the rest being used for export finance.

The tariff cuts follow lines established in the SAL agreement with Costa Rica in 1987 and 1988, and with Honduras last year.

They will give an added spur to hurried negotiations to revise the common external tariffs of the Central American Common Market in line with its members' new trading policies setting the seal on the region's turn towards a less protected model of industrial and commercial development.

It remains to be seen whether the Guatemalan programme will be better starred in its implementation than those of Costa Rica and Honduras.

This spring saw a freeze in World Bank payments to both those countries, due to delay on the implementation of agreed tariff cuts and privatisations, and, in Honduras's case, arrears of repayments of previous World Bank loans.

There is little sign that Guatemalan industry - the most developed in the region, and the biggest gainer from the heavily protected Central American Common Market - is geared to meet the challenge of world markets.

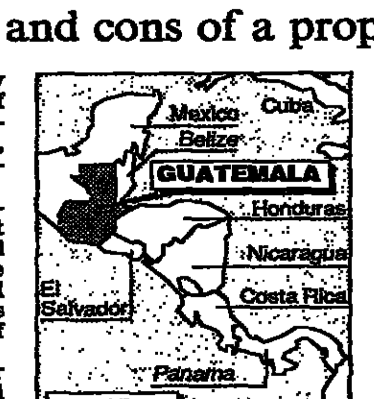
A conference of the Chamber of Industry in April expressed concern that cuts in protection should be coupled with financial support for restructuring. But the World Bank money will go mainly into rebuilding the fragile reserves position.

Though the regulated interest rate structure may be liberalised, there is little prospect of relaxation in the tight overall monetary policy.

Credit expansion in commercial banks is presently rationed at 9 per cent a year, against inflation of 14 per cent. The cut in inflation from 40 per cent in early 1986 is the government's major macroeconomic achievement.

Tight money is encouraging the repatriation of flight capital to provide working balances in the business sector - with private transfers so far this year topping $48m, compared with $10m in the first five months of 1988.

Industry will have to finance reconversion by bringing funds away from other demanders of credit, at home or abroad. Guillermo Rodriguez, of the Chamber of Enterprise, and the private sector's spokesman on foreign trade, is concerned that this is asking too much: "We're playing for high stakes with structural adjustment, and we



haven't added them up yet."

According to Rodriguez, only the maquila sector - about 16 per cent of industrial production, up from $9m in 1984 to $90m last year, mainly clothing - is fully ready to meet world competition.

The food processing and packing industry (30 per cent of industrial production) need a couple of years to adjust. But non-food like manufactures (plastics, metals, rubber, leather, automobile parts and textiles, totalling another 30 per cent) need at least three to four years.

Some sectors - in particular wood products have little prospect of adjusting in any time frame.

The regional market will remain important for Guatemalan industry and Rodriguez welcomes the efforts of the Regional Economic Integration Secretariat, SIACA, to involve the private sector in the recasting of the Common Market.

But at a national level, just one month before the first tariff cuts are due, the private sector has yet to discuss the details with the government.

The tariff cuts will affect the government's fiscal position. Imports taxes provide 19 per cent of current revenues. Guatemala remains one of the lowest taxed countries in the world, with the government taking over 9 per cent of GDP, but there is fierce private sector opposition to tax rises.

The Finance Ministry hopes that, in the medium term, the economic growth triggered by restructuring will widen the tax base and offset the income loss.

But the short term could see a limited repeat of the impact of the IMF-promoted tax cuts of 1982-3, when total taxes fell to 6 per cent of GDP by 1985.

Central Bank officials expect the tariff cuts to put pressure on the balance of payments if imports demand rises. Devaluation is probable, since they will not use the World Bank or US Agency for International Development (AID) funds ($70m this year) to prop up the quetzal - presently 2.7 to the dollar.

But devaluation will bring only limited relief to industry, because the sector is a heavy importer of inputs.

The commercial deficit in 1988 was $368m, with imports at 1,457m against exports of 1,073m. For 1989 the Central Bank expects exports of $1,240m and imports of $1,630m.

The projected improvement in exports is based on the hope of improved average coffee prices (from $120 to $125 a quintal) and volumes from 3.2m to 3.5m quintals. Coffee was 36 per cent of total exports ($387m) in 1988.

The other key element of export growth is non-traditional products markets outside Central Market, which have risen from 12 per cent of exports in 1986 to 18 per cent last year, when they reached $195m.

By far the biggest market is the US, which now takes 40 per cent of all Guatemalan exports. The main non-traditional lines are vegetables, fruits, plants and flowers, seafoods, sesame, tobacco and chemical products.

The central bank projects a further 25 per cent increase in these exports in 1989 - to $245m. It is here that the package of tariff cuts, export promotion measures and the likely devaluation will have most effect.

The key question for the Guatemalan economy is the elasticity with which these products can respond - and the facility with which industry can reorganise itself to add other lines to the effort.

With GDP at $7.8bn last year, GDP per capita reached $900 - still a good 18 per cent below its 1980 peak, and hard pressed to keep pace with the 3.5 per cent population growth rate. Guatemala's Christian Democrat Government facing an election in 1990, will not want to weather a wave of industrial closures uncompensated by new job creation in the export sector.

It has not escaped the notice of Guatemalan observers that in neighbouring Mexico, tariff cuts closed 74 of the country's 76 producers of domestic appliances.

Its a safe bet that a similar impact here would quickly produce a block between government and its industrial lobby to rewrite the details of the World Bank programme.

UN chief warns Central America over aid

By William Dullforce in Geneva

FIVE Central American governments seeking funds for a $4.4bn (£2.8bn) development programme were told yesterday by Mr Javier Pérez de Cuéllar, the United Nations Secretary General, that they could not expect help from donor governments until they had shown the will to settle their political problems.

Mr Pérez de Cuéllar was opening a three-day meeting between Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, delegations from the industrialised countries and international organisations on the Plan of Economic Co-operation for Central America.

The plan is the outcome of the Esquipulas agreement of 1987, at which the presidents of the five countries pledged to establish peace. Worked out in collaboration with the United Nations Development Programme, it aims at reversing economic decline in a region where average per capita Gross Domestic Product is no higher than two decades ago.

UNDP has organised this week's meeting which is seeking commitments from the richer countries and international agencies to $2.6bn in debt restructuring and re-financing of the Central American common market, $392m for emergency food and refugee resettlement costs and $1.4bn for economic stimulus and social development.

Commitments have been relatively small: the largest is $115m from Italy to assist displaced people.

However, since the plan was conceived the peace process has been halted and there has been a resurgence of violence.

Caribbean community denies entry to Haiti

THE Caribbean Economic Community (Caricom) will not accept last week's appeal from Gen Prosper Avril, the Haitian leader, that his country be made a member, writes Canute James in St George's, Grenada.

The community's leaders, at their annual meeting in St George's, are instead to offer increased technical assistance to Haiti. But they will tell its government they want to see indications of political changes, including the holding of national elections.

Last week Gen Avril, who took power in a coup 10 months ago, said it was time for Haiti to be admitted to the 13-nation community.

Caricom believes that Haiti, because of its weak economy, would damage efforts of the 13 nations to integrate their economies.

The summit wants to leave the door open for discussions with Haiti and is considering sending a ministerial mission there.

Army chief puts pressure on Menem

MR Carlos Menem, who takes office as Argentina's President on Saturday, has come under pressure from Gen Francisco Gassino, the army chief of staff, to ease the removal from the army of leading rebels, particularly Col Mohamed Ali Seineldin, Gary Mead reports from Buenos Aires.

Argentina has seen three serious army rebellions since April 1987 – the last led by Col Seineldin in December 1988. Rebels loyal to him have taken a stance against the outgoing Radical government and in favour of Mr Menem's Peronists, creating friction between the "official" wing identified with Gen Gassino and the supporters of Col Seineldin.

Chile fuel cuts

A drought in central Chile has prompted electricity rationing from next Monday, with the aim of cutting energy for industry by 10 per cent and lowering domestic voltage, Barbara Durr reports from Santiago. Much of Chile's power comes from hydroelectric generators in the central area.

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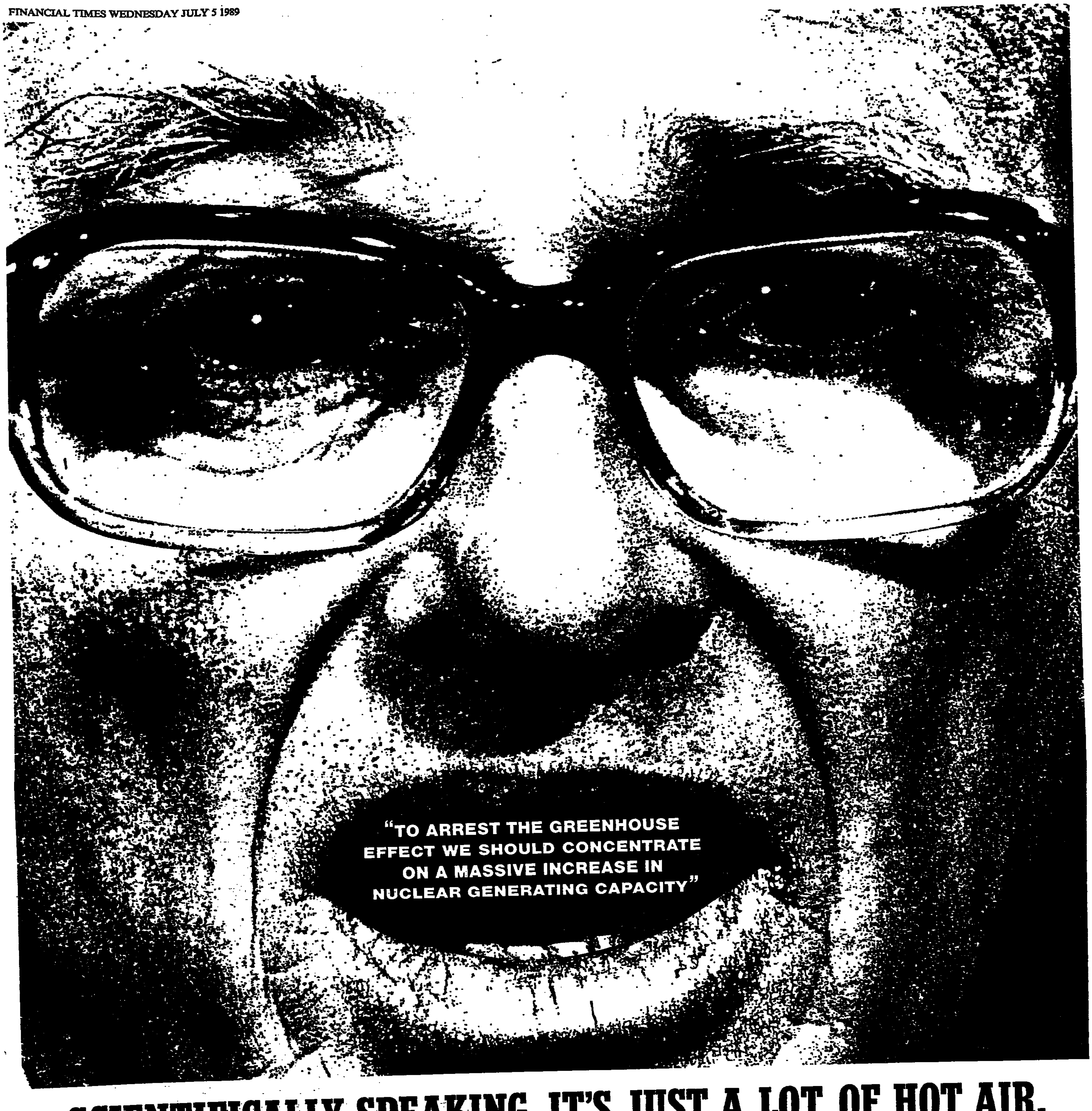


SCIENTIFICALLY SPEAKING, IT'S JUST A LOT OF HOT AIR.

Nicholas Ridley, the Government, BNFL, and the CEGB claim that nuclear power is an answer to the greenhouse effect.

This view is mistaken.

Moreover, 100 of the country's leading scientists, doctors, and engineers, 40 of whom are listed below, have signed the following declaration:

"NUCLEAR POWER IS NOT AN ANSWER TO THE GREENHOUSE EFFECT.

The nuclear industry is right when it says that the greenhouse effect is a threat to civilization.

It is wrong when it says that nuclear power has an important part to play in reducing emissions of greenhouse gases.

This is so because the amount of carbon dioxide produced by coal-fired power stations around the world constitutes only a small percentage of the overall greenhouse gases currently added to the atmosphere.

Even a decision to eliminate that small percentage by replacing coal-fired power stations with nuclear stations is a mistake.

This is so because energy efficiency measures offer far more scope than nuclear, £-for-£, in reducing the demand for fossil fuels.

It is cheaper to save a unit of energy than to generate an additional unit.

And the scope for energy efficiency measures is huge in our energy-profligate world economy.

The hundreds of billions of dollars which would have to be spent on an expanded nuclear programme would drain the resources available for energy efficiency and other measures.

Energy efficiency measures can be introduced far more quickly than can nuclear power stations.

Time is not on our side when it comes to tackling the greenhouse effect.

It takes a minimum of six years to build a nuclear power station, and a matter of months to implement energy saving measures.

Finally, the nuclear waste issue is unresolved.

Decommissioning has essentially yet to be addressed.

The problems of nuclear weapons proliferation remain.

And the track record of the nuclear industry involves a long history of over-ambitious appraisals of cost and reactor safety. An expansion of the nuclear programme will compound these problems.

The greenhouse effect is a serious environmental phenomenon which requires serious and urgent solutions.

Nuclear power is irrelevant to the prevention of global warming."

GREENPEACE

LIST OF SIGNATORIES

Prof Brebis Bleaney C.B.E., F.R.S. Emeritus Professor of Experimental Philosophy, University of Oxford - **Prof Jack Boag** Emeritus Professor of Physics Applied to Medicine, University of London - **Prof John Burland F.Eng.** Professor of Civil Engineering, Imperial College of Science, Technology and Medicine - **Prof Roy Butterfield** Professor of Civil Engineering, University of Southampton - **Prof John Christian F.R.S.** Emeritus Professor of Physical Metallurgy, University of Oxford - **Prof Paul Fatt F.R.S.** Professor of Biophysics, University College, London - **Dr Richard Fortey** Senior Principal Scientific Officer, British Museum of Natural History - **Prof Michael Green F.R.S.** Professor of Physics, Queen Mary College, London - **Prof Andrew Haines** Professor of Primary Health Care, University College, London - **Prof Denis Hall** Professor of Physics, Heriot-Watt University - **Prof Peter Higgs F.R.S.** Professor of Theoretical Physics, University of Edinburgh - **Prof Robert Hill** Professor of Physics, Newcastle Polytechnic - **Prof Robert Hinde C.B.E., F.R.S.** Royal Society Research Professor, University of Cambridge - **Prof Dorothy Hodgkin O.M., F.R.S. Nobel Laureate** Emeritus Professor of Chemistry, University of Oxford - **Prof Brian Jarman O.B.E.** Professor of Primary Health Care, St Mary's Hospital Medical School - **Prof Tom Kibble F.R.S.** Professor of Theoretical Physics, Imperial College of Science, Technology and Medicine - **Prof Roy King** Professor of Social Theory and Institutions, University College of North Wales - **Prof Nicholas Kurti C.B.E., F.R.S.** Emeritus Professor of Physics, University of Oxford - **Prof Bernard Leake** Professor of Geology, University of Glasgow - **Prof Patricia Lindop** Emeritus Professor of Radiobiology, University of London - **Prof David Metcalfe** Professor of General Practice, University of Manchester Medical School - **Dr Steven Moorbath F.R.S.** Reader in Geology, University of Oxford - **Prof David Morley** Emeritus Professor of Child Health, University of London - **Dr Ian Munro** Former Editor, The Lancet - **Prof Ian Percival F.R.S.** Professor of Applied Mathematics, Queen Mary College, London - **Prof Joseph Pfab** Professor of Chemistry, Heriot-Watt University - **Prof Carl Pidgeon** Professor of Physics, Heriot-Watt University - **Prof Keith Puttick** Professor of Physics, University of Surrey - **Dr Reginald Rainey F.R.S.** Formerly Senior Principal Scientific Officer, Ministry of Overseas Development - **Prof Martin Rees F.R.S.** Professor of Astronomy, University of Cambridge - **Prof Joseph Rotblat** Emeritus Professor of Physics, University of London - **Prof Michael Rowan-Robinson** Professor of Physics, Queen Mary College, London - **Prof Ian Smith** Professor of Geotechnical Engineering, University of Manchester - **Prof David Smythe** Professor of Geophysics, University of Glasgow - **Prof Fred Vine F.R.S.** Professor of Environmental Sciences, University of East Anglia - **Prof Alan Watson** Professor of Physics, University of Leeds - **Dr Michael Whelan F.R.S.** Reader in Metallurgy, University of Oxford - **Prof Maurice Wilkins C.B.E., F.R.S. Nobel Laureate** Emeritus Professor of Biophysics, University of London - **Prof Robert Williams F.R.S.** Napier Royal Society Research Professor, Oxford - **Sir Gordon Wolstenholme O.B.E.** Action in International Medicine, London.

WORLD TRADE NEWS

WORLD DEVELOPMENT REPORT

Debt reduction could raise economic growth by 1%

By Peter Montagnon, World Trade Editor

MEASURES to reduce outstanding external borrowing by 20 per cent over a three-year period in the most highly indebted developing countries could raise their economic output by a full 1 per cent, the World Bank estimates today.

The growing popularity of debt reduction schemes has prompted the Bank to analyse their potential economic effect in its latest World Development Report.

Its projection that higher growth would result also assumes, however, that the main industrial countries take appropriate steps to reduce international imbalances by improving the balance of fiscal and monetary policy.

Debt reduction would free funds currently used for interest payments to be applied to imports of investment goods, raising overall investment levels.

Some countries, such as Argentina, Mexico, Brazil and Nigeria would fare better than average under this scenario with their economic output rising by as much as 2 per cent, the Bank says.

But it cautions that its projections are tied directly to available resource flows. What actually happens would also depend heavily on the economic adjustment policies pursued by the debtor countries themselves.

Debt reduction which increased the prospect of the borrower country being able to meet future interest payments would improve the investment climate and eventually encourage the return of flight capital, it says.

Failure to adjust could, however, mean that debt reduction schemes would reduce the availability of new external capital flows, adding to net capital outflows and reducing domestic investment.

"These considerations," it writes, " reinforce the view that continued and powerful structural adjustment by the debtor countries remains the most important agreement in dealing with the debt problem."

As usual the Bank provides two medium term growth projections for the developing world.

The first assumes adjustment by industrial countries including a reduction of the US budget deficit coupled with an easing of monetary policy.

This would enhance growth prospects for developing countries with real output rising by an average annual 4.6 per cent in the period up till 1995 compared with 4 per cent since the start of this decade.

Though an improvement, this growth rate would not match that achieved in the 1960s and 1970s, the Bank says. The outlook for sub-Saharan Africa is also particularly bleak.

Its output would rise by an annual 3.2 per cent in the medium term compared with 0.5 per cent since 1980 but rapid population growth means that per capita income would stagnate.

"More and more effective use of external financing will be needed to keep subSaharan Africa from falling further behind," the Bank warns.

Under its alternative scenario where adjustment is not pursued by the developed world, growth would falter and protectionism would increase.

This would reduce the projected annual growth rate for developing countries to 3.7 per cent in the first half of the next decade. Trade prospects would deteriorate and per capita income would grow at only 1.8 per cent, less than the 2 per cent recorded since the start nof the decade.

Development finance in Third World comes under attack

By Our World Trade Editor

AMONG the developing country finance vehicles singled out for special criticism in this year's World Development Report are the so-calleddevelopment finance institutions.

These are national lending institutions commonly used by developing countries to channel long-term funds to specific sectors of industry and agriculture.

In the past they have frequently run up large foreign borrowings from the World Bank, other multilateral lending bodies and evencommercial banks as a meansof funding their lendingprogrammes.

The Report's conclusions are thus significant because they underline consideration now being given by the World Bank itself to the wisdom of lending to these once favoured institutions.

Many development finance institutions are insolvent and some have had to be closed, the report says. In a sample of 18 industrial development institutions, barely half their loans were found to be in arrears and accumulated arrears were found to be equivalent to 17 per cent of their portfolio value.

The report says that development finance institutions are vulnerable to losses because most only provide long-term loans and have no regular day-to-day contact with their customers.

Many have encouraged their customers to raise loans with inadequate equity backing and passed on to them the exchange risk inherent in foreign currency borrowing even though they lacked the means to hedge.

Management of development finance institutions should be upgraded and they should charge market interest rates on their loans, the reportsays.

But not all development finance institutions are failures. The report praises the Botswana Development Corporation(BDC) which provides equity as well as loans to development projects and has been funded in part by the International Finance Corporation.

"The BDC owes its achievements to a strong and growing economy, a conservative investment and lending strategy, independent management, and a highly qualified staff," it says.

External funds require internal reforms

Bank tells developing countries: get your house in order, writes Peter Montagnon

THE PROSPECT that external capital flows will remain limited for the foreseeable future means developing countries must be prepared to undertake wide-ranging reforms of their financial sectors to encourage the return of flight capital and mobilise the investment needed for economic recovery.

This is the central message of the World Bank's World Development Report published today. The report scrutinises the financial systems of the developing world and concludes that although reform is under way in many cases, traditional banking structures have led to misallocation of credit, financial distress and inefficiency which has wasted savings and impaired growth prospects.

"Economic recovery requires the restructuring of financial intermediaries and insolvent firms. It also requires a policy environment in which finance can become less a tool for implementing the interventionist development strategies and more a voluntary process for mobilising and allocating resources," it says.

The report explains why financial sector reform has assumed such a high priority in the bank's policy prescriptions. It presents a long list of policy errors common in the developing world, ranging from attempts to manipulate the economy through credit allocation, artificial interest rate structures and inadequate banking supervision to poor accounting practices.

Government attempts to direct credit to priority areas of the economy, often with artificial rates of interest, is a common feature of developing country financial management, the report says, noting that as recently as 1986, 70 per cent of new lending by banks in Pakistan, for instance, was targetted in this way.

But such directed credit programmes involve an implicit subsidy that has to be paid for, for example through higher lending rates to other, more efficient borrowers, or through low deposit rates which discourage saving and provoke capital flight.

They have also discouraged proper credit analysis by both lenders and recipient enterprises with the result that many directed credits have become non-performing, resulting in large losses in developing country banking systems.

Moreover many developing countries use their domestic banking system to finance public sector borrowing. A typical way is through the imposition of high reserve requirements which provide the authorities with cheap money but distort the intermediation process. Reserve requirements in Argentina are as high as 70 per cent, those in Brazil more than 40 per cent and those in Zaire 51 per cent.

"Large public sector deficits that demand financing from shallow domestic financial systems invariably lead to inflation or crowd out private sector borrowing," the report says.

DEVELOPING COUNTRIES GROWTH PROSPECTS*

	1980-1988	1988-1995 Scenario 1**	Scenario 2***
All LDCs	4.0	4.6	3.7
Sub-Saharan Africa	0.5	3.2	3.1
Asia	7.3	6.0	4.9
Latin America	1.7	3.1	2.3

*Average real annual growth rates
**Scenario 1 assumes fiscal and monetary adjustment in OECD countries
***Scenario 2 assumes no change in policy

Source: World Bank

These problems are compounded by inadequate banking supervision and accounting practices.

Bank supervisors in many developing countries focus on compliance with monetary policy regulations, foreign exchange controls and economic policy regulations such as those for allocating credit. They pay too little attention to the prudential aspects of financial monitoring with the result that governments may often be unaware of problems until it is too late.

In the West African monetary union, for example, more than 25 per cent of bank credits are non-performing and at least 20 primary banks are bankrupt. The South Korean authorities had to oversee the winding up of 78 insolvent firms whose combined debts exceeded assets by $5.9bn between between 1986 and 1987.

Financial distress has contributed to slow growth and undermined structural adjustment as banking institutions have been rendered unable to contribute efficiently to the intermediation process. In particular the rising volume of non-performing loans in developing country banks has often had a perverse effect by encouraging them to lend more money to their least solvent customers so that they can continue to service existing debt.

One of the important lessons of financial reform efforts to date is that they tend to be more successful if they are carried out against a background of macro-economic stability, the report suggests.

This means reform must go hand in hand with efforts to reduce inflation and eliminate price-distorting subsidies and controls. Chile's financial reform, for instance, was undertaken at a time when its exchange rate was overvalued which led to an excessive flow of funds into the non-tradables sector, notably real estate. This aggravated the country's subsequent economic crisis.

Chile, along with Argentina, Uruguay, the Philippines, and Turkey, was also cited as an example of a country which failed to provide adequate prudential regulation and banking supervision.

In privatising banks, it allowed them to become acquired by industrial groups which then used them to make excessive loans to group firms.

In the initial stages, the report says, financial reform in developing countries will have to be less extensive than in their industrial counterparts.

It should start by getting the fiscal deficit under control and establishing macro-economic stability. The government should then scale down directed credit programmes and adjust interest rate levels to bring them into line with inflation and other forces. It should encourage managerial autonomy in financial institutions, some of which may need to be restructured.

Only at a subsequent stage should governments seek to promote competition by allowing a greater diversity of institutions and markets, perhaps by encouraging the entry of foreign banks. Until such reforms are well under way it may be necessary to retain controls on capital movements. These would only be lifted in the final stage of liberalisation when interest rates would also be fully freed and the remaining directed credit programmes eliminated.

Such changes take time and involve hardship, the bank says. They can also never work perfectly, but a liberalised financial system "would probably make fewer mistakes and waste fewer resources than the interventionist approach followed by many developing countries today".

Ibrahim Ibn Salama: heady plans but short on detail

Saudi Arabia plans EC chemical ventures

By Peter Marsh

THE SAUDI Basic Industries Corporation (SABIC), Saudi Arabia's main industrial holdings company for petrochemicals, is planning to invest in large chemicals projects in Western Europe as a way of expanding its activities in the region.

Mr Ibrahim Ibn Salama, vice-chairman and chief executive of SABIC, said in London yesterday the group intended to take this route via joint ventures with European chemicals groups.

He said the plans for this course of action were still at an early stage and he had no firm idea of the sums of money SABIC would be willing to invest in such schemes.

Mr Salama claimed he had no particular targets for the kind of chemicals his group would want to have a hand in producing under the new ventures. They would likely, however, to be downstream materials like plastics and intermediate materials for items like detergents.

The plan by SABIC is likely to be treated with some scepticism by leaders in the West European chemical industry, on the grounds that much of the sector is already worried about possible overcapacity in some major chemicals in the Continent and is unlikely to want to consider new projects with an outside partner.

Mr Salamah said he could understand these fears but that he thought joint ventures between SABIC and chemicals groups in Europe could have positive effects for both sets of parties.

SABIC, which last year had sales of about $3bn, already has several joint ventures with Western companies involving chemicals manufacturing operations in Saudi Arabia. It manufactures a range of basic chemicals such as ethylene and polyethylene plastic in conjunction with groups including Shell Oil, Exxon, Hoechst and Mobil.

Mr Salama conceded that setting up joint ventures in manufacturing plants in Europe would be one way to increase exports by his company into the Continent.

At present European exports account for about one-fifth of SABIC's total sales. The Saudi company would like to step up its activities in this area but says it is prevented from doing so by import quotas implemented by the European Commission which apply to a large amount of its trade into Western Europe.

Any plants run by SABIC in Europe in conjunction with partners could be expected to receive significant volumes of raw materials from other factories operated by SABIC in Saudi Arabia, Mr Salama said.

French form consortium to enter Soviet Union

By George Graham in Paris

EIGHT FRENCH industrial companies have formed a consortium, backed by the Credit Lyonnais bank, to promote joint ventures with the Soviet Union.

The consortium, launched yesterday during the visit to Paris of Mr Mikhail Gorbachev, the Soviet leader, will open the way to Franco-Soviet joint ventures aimed at the USSR's domestic market by allowing its members to pool their foreign exchange earnings.

Soviet regulations make it virtually impossible for foreign companies to repatriate profits unless they have made them in hard currency by exporting their products outside the USSR. The consortium will allow companies with a hard currency surplus from their exports to offset other companies producing only for the domestic market.

Mr Lev Voronin, Soviet vice president, said the consortium would allow a number of interesting projects which had run up against the foreign exchange problem to be realised.

The French members include Air Liquide, the industrial gases group; BSN, which has projects in the biscuit and sauces markets; Club Méditerranée, which plans holiday camps in Moscow, Leningrad, Kiev and Yalta; Darty, the consumer electronics retailer; and Electronique Serge Dassault, which has reached agreement with Sberbank on the computerisation of its payment systems.

Japan-Norway pharmaceutical tie-up agreed

By Karen Fossli in Oslo

NYCOMED, the pharmaceutical division of Hafslund Nycomed, the diversified Norwegian group, said yesterday it had signed a $14m (£9m) research and development, licensing and marketing agreement with Daiichi Seiyaku, one of Japan's leading pharmaceutical companies.

The pact calls for Daiichi to market and sell products in Japan of Salutar, Nycomed's US unit, on an optional basis. Hafslund Nycomed bought Silicon Valley-based Salutar in April for $55m. Daiichi has already agreed to market and sell Salutar's S-041, a non-ionic gadolinium agent, used for examination of the central nervous system with a technique known as MRI, magnetic resonance imaging.

Paris considers U-turn on Subaru vehicle plant

By Our Correspondent in Paris

PLANS to manufacture Japan's Subaru four-wheel drive vehicles in France could be back on the road again after running into hostility from the French government.

Mr Roger Fauroux, the French industry minister, is due to meet the heads of the Japanese company today, and yesterday said he would welcome the installation of a Subaru plant, perhaps at Angers in central France.

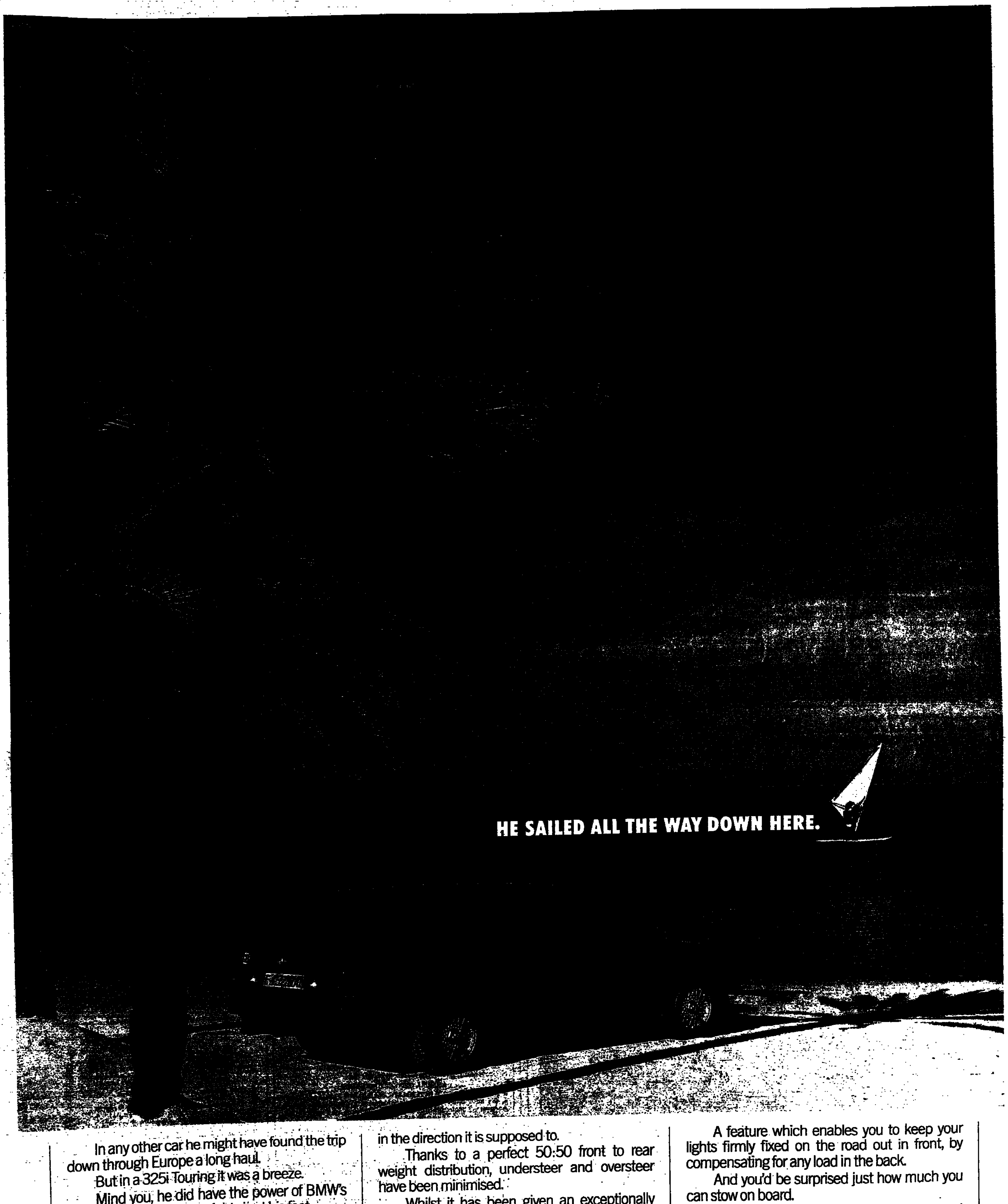
"The Subaru project is a project which is really welcome in France. In addition, it would make four wheel drive vehicles which are not made in France. I would prefer that they make them here than that they should import them," the minister said.

Fuji Heavy Industries, which manufactures the Subaru, proposed a year ago to invest FFr100m(£9.4m) in the conversion of a site at Angers formerly owned by International Harvester. The plant was to produce 25,000 to 30,000 vehicles a year.

The project ran into objections from French carmakers and from the government on the grounds that the plant would merely assemble cars from imported components, with little European content.

French industry analysts say Subaru had appeared to lose interest in the Angers project, but has recently seemed to be returning to the fray.

Mr Fauroux said Japan's trade surplus with Europe should be offset by Japanese investment in the EC. He was in favour of quotas on imports of cars from Japan.


HE SAILED ALL THE WAY DOWN HERE.

Talks could lead to rail peace but strike proceeds

By Fiona Thompson, Labour Staff

TALKS which could lead to the first breakthrough in the rail dispute will take place this morning as British commuters face getting to work without trains for the third successive Wednesday.

London, as before, will be hardest hit because workers on the underground are also to strike and London Underground expects only a handful of trains to run. London Buses hopes to run a near-to-normal service. Its 5,000 engineers are striking but the 13,500 drivers and conductors will work.

British Rail and the TSSA clerical rail union will this morning appear before the Railway Staff National Tribunal, the industry's own final appeals board. The three-person independent tribunal will hear the case for and against BR's 7 per cent pay increase, which it imposed on the TSSA, the National Union of Railwaymen and the Aslef train drivers' union in May.

The NUR and Aslef have refused to make a submission, on the ground that pay cannot be separated from the other issue at the heart of the dispute, British Rail's intention to scrap national collective bargaining.

Mr Richard Rosser, general secretary of TSSA, will argue that his members are looking for a big rise in pay taking into account the rate of inflation, the level of wage settlements elsewhere and their improved productivity.

British Rail, led by Mr Trevor Toolan, managing director personnel, will argue that it can afford only a 7 per cent rise on basic pay although there could be more money if the unions agreed productivity changes.

While Mr Toolan is putting the corporation's case at the tribunal, other BR executives will be announcing its year-end results. BR is expected to show profits of £304m, up from £291m last year, most of the rise due to higher property sales.

The tribunal is expected to reach a decision within a week and although its recommendation is not binding, it is expected to form the basis for a settlement. BR is likely to impose any settlement agreed for TSSA on the NUR and Aslef. Assuming individual rank and file members thought the pay award was fair, this could lead to many rail workers concluding that it was time to settle the dispute.

Leaders of the NUR and Aslef insist the twin issues can be resolved only under the auspicious of the conciliation service Acas.

Toyota motors into a fresh British climate

Kevin Done looks at the Japanese group's plans to build an engine plant in Wales

TOYOTA's decision to locate its first European engine plant in the UK is the icing on the cake for the British Government, which was already triumphant that Japan's leading vehicle maker had chosen the UK as the location for its first car assembly plant.

Toyota is now committed to spending close to £850m in the UK in the largest inward investment ever made by a Japanese corporation in Europe.

When it announced in April its plans to build a 200,000-cars-a-year assembly plant at Burnaston, near Derby, Toyota made clear that the UK was also the "lead candidate" for the engine plant, but it was never a foregone conclusion, and over the last two months the company has also examined sites in continental Europe, not least in France.

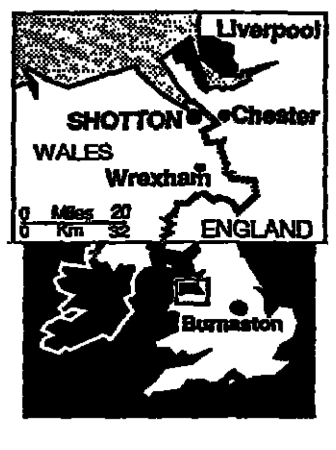
If the reaction to Toyota's plans to assemble cars in the UK had been more hostile, it is possible that Toyota would have felt constrained to site the engine plant in continental Europe as a trade-off. In the event the response from continental European car makers and from other European Governments has been surprisingly muted.

The teeth of the potential opposition were pulled in any case by Toyota's decision to eschew any UK state aid, avoiding in the process the need to put itself through the mill of seeking approval for the project from Brussels. Since the beginning of the year any state aid to the European motor industry above Ecu12m (£8m) must be notified in advance to the European Commission.

The way in which Toyota has chosen to establish itself in the UK without state aid shows how far the investment climate in the UK has moved since the early to mid-1980s, when Nissan, Toyota's arch domestic rival, was making up its mind to begin car assembly in Europe. It finally opted for a site near Sunderland in north-east England, where it is developing a 200,000 cars a year plant with a total investment of some £610m, but the decision was helped by state aid worth around £125m.

Toyota's decision to establish engine production in Europe in addition to car assembly was virtually guaranteed by the nature of its voluntary agreement with the UK Government over local content.

Under the deal struck with the Department of Trade and Industry it is committed to reaching an eventual local (European Community) content level of 80 per cent on an ex-works price basis.



Toyota is planning to begin pilot production at Burnaston in December 1992 with commercial production beginning in August 1993. The agreement with the DTI says that it is Toyota's "firm intention" to achieve a 60 per cent local content level from the start-up of commercial production and to achieve a steady build-up to 80 per cent local content within two years.

The agreement is similar to the tried and tested formula developed by the DTI for its earlier "voluntary" deals made with Nissan, Honda and IBC Vehicles, which is the General Motors/Isuzu 60-40 joint venture which assembles Japanese designed light commercial vehicles at the former Bedford van plant in Luton.

The insistence on an 80 per cent local content level virtually ensures that Japanese vehicle makers must at least make either the engine or the transmission in Europe and avoids the danger of the assembly operations becoming mere "screw-driver" operations, where most of the components are still imported from Japan.

The announcement of Toyota's engine plant marks the third Japanese car engine plant to be built in the UK. Nissan began engine assembly in Sunderland in mid-1988, and it will begin machining components in spring 1990. It has recently announced plans for casting and machining aluminium engine cylinder heads at Sunderland and according to Mr Ian Gibson, Nissan Motor Manufacturing UK managing director, the company is examining how best to source the engine block and crankshafts in Europe. At present these are imported ready-machined from Japan.

Nissan already has firm plans for obtaining the electronic engine management systems in Europe. By the end of 1992 it should be making 150-200,000 engines a year at Sunderland, and although the blocks will still come from Japan in the early 1990s, it is expected that it will switch later to European-sourcing.

The second Japanese engine plant in the UK is being developed by Honda on its 367 acre site at Swindon in south west England. Honda has recently begun pilot production and commercial production will begin in August/September. The company is planning initially for a capacity of 70,000 a year. The engines will be used in the Honda Concerto/Rover 200/400 car ranges which have been developed jointly by Honda and Rover and which begin full production at Rover's Longbridge plant later this summer. The models will be launched in the European market in the autumn.

Hondas will make a range of multivalve 1.4 and 1.6 litre engines at Swindon, in both single and twin cam forms and with both carburettor and fuel injection versions. The engines will have aluminium blocks which will be cast at Swindon. At first the aluminium cylinder heads will be imported from Japan but Honda aims eventually to source the complete engine from EC components suppliers.

In Brief

Row over N-station plans in power sale

A political row erupted over the Government's plans — confirmed by Prime Minister Margaret Thatcher — to include nuclear power stations in its privatisation of the electricity industry. Labour Party leaders claimed that the nuclear power sale would not be possible without huge financial guarantees by the Government on the costs of decommissioning existing nuclear stations.

Transmitter scheme

The Government plans to privatise the broadcasting transmitter networks of both the Independent Broadcasting Authority and the BBC in their present form.

BBC ventures

BBC Enterprises, commercial arm of the BBC, is investigating the possibility of setting up joint venture television production companies with US network companies and Australian broadcasters.

Glaxo pay scheme

Glaxo, big pharmaceutical company, has introduced a pay scheme for its 2,800 UK-based research workers based entirely on linking remuneration to job performance.

Nalgo action claim

Nalgo, the public sector union, claimed that more then 90 per cent of its 500,000 members in local government joined a one-day strike in protest against pay and conditions.

N Sea strike spreads

About 3,500 construction workers staged a strike over pay and conditions affecting some 30 platforms in the North Sea after BP flew in 34 directly-employed workers to get one of the platforms working again.

£3.3m rubber site

St Albans Rubber, the UK company which makes Europe's leading brand of neoprene for use in wetsuits, plans a £3.3m expansion in County Durham.

Smith New Court faces inquiry

By David Barchard

THE Professional Standards Panel of the Stock Exchange is investigating a delay by Smith New Court, the London securities house, in reporting a portfolio trade conducted late last year for Ivory and Sime, the Scottish investment manager.

In a statement last night, Smith New Court said it was aware of the Stock Exchange inquiry, but that no allegations of rule-breaking had been made. This suggested that the investigation did not follow a complaint.

In portfolio trading, a basket of securities is sold or bought under complex pricing arrangements and so usual notification procedures do not apply.

The price is usually the mid-price — halfway between the bid and offered stock prices — during a specified period, minus discounts and commissions. The deal must be notified immediately at the end of the specified period.

The Stock Exchange declined to comment in accordance with its general policy of not discussing individual disciplinary cases.

Mr David Ross, general manager of Ivory and Sime, said last night his firm had given evidence to the inquiry three months ago. "We are happy and our client is happy, and as far as we are concerned, it is a matter for the Stock Exchange and its member and not for us," he said.

The Stock Exchange is employing the more serious of its two forms of disciplinary inquiry in this case. The Professional Standards Panel is usually only invoked for relatively serious cases. In smaller cases, where technical irregularities are involved, the Exchange may award a summary penalty of up to £50,000.

If the Panel were to find against Smith New Court, it could award penalties ranging from a reprimand to an unlimited fine.

David Lascelles adds: Citicorp Scrimgeour Vickers' three-person pharmaceuticals research team, of John Aldersley, Paul Woodhouse and Jacquelyne Cantle, is leaving to join Smith New Court.

CSV also announced yesterday the appointment of a new head of UK sales, Mr Ian McLean, previously of County Securities. Mr John McFarlane, chief executive of CSV, said the appointment completed the firm's new management team, since its reorganisation at the beginning of this year.

Hurd outlines new rules for radio station owners

By Raymond Snoddy

THE Government plans to create the right to impose new limits on the ownership of commercial radio stations if there is a danger of too great a concentration of power.

At present it is proposed that one company will be able to own one of the planned new national stations plus a maximum of six local stations.

Mr Douglas Hurd, the Home Secretary, told the Association of Independent Radio Contractors (AIRC) in London yesterday that there was a case for criterion based on population coverage or audience share.

Without such a rule it would be possible "for the same group to gain control of the six largest stations, thus establishing a quasi-national network without going through the franchising procedures for national radio."

The Broadcasting Bill to be introduced into Parliament this autumn would allow supplementary limits to be set by subordinate legislation.

There would also be powers to vary the six-station limit if that should turn out to be too restrictive. The AIRC had asked that a single group should be allowed to own up to 10 local stations if it did not have a national licence.

Mr Hurd also announced measures to keep pirate radio stations off the air. The offence of broadcasting without a licence will be extended to managers or owners of property used for pirate broadcasters and companies which advertise on pirate radio.

Dock redundancies begin

By Jimmy Burns, Labour Staff

PORT employers have begun to announce redundancies among their former registered dock workers after the granting of Royal Assent to the Dock Work Bill abolishing the National Dock Labour Scheme.

English China Clays, which runs the ports of Fowey and Par in Cornwall, said yesterday that its registered workforce of 72 dockers has been made redundant.

In Aberdeen, 57 fish market porters formerly registered under the scheme have been made redundant, together with 90 dockers employed by a local stevedoring company which has gone into liquidation.

A senior manager of the Aberdeen Stevedoring Company said that 90 dockers had been made redundant after local union officials had followed the instruction of the TGWU transport union and refused to negotiate new terms and conditions.

Under the Dock Work Bill, which overcame its final parliamentary hurdle on Monday night, the dockers who have been made redundant will be entitled to maximum payments of £35,000 each under the Government's compensation scheme.

UK NEWS

Electricity sell-off could force gas price shake-up

By Maurice Samuelson

SHARPER competition by the privatised electricity companies might force British Gas to vary the household tariff for gas in different parts of the country, Mr Bob Evans, its newly-appointed chairman, said in London yesterday.

He also disclosed that between £2bn and £4bn might be spent on investing in new energy businesses in Britain and abroad.

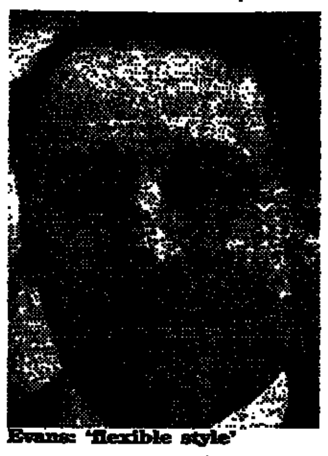
Mr Evans, who combines the posts of chairman and chief executive, took over the chairmanship last Friday in succession to the long-serving Sir Denis Rooke.

He was announcing the first major reorganisation of British Gas's top management structure since the company was privatised three years ago.

As well as anticipating new competition from other gas suppliers and from electricity after the planned privatisation next year, the announcement underlined the contrast between Mr Evans's flexible management style and his formidable predecessor.

At present, said Mr Evans, there was no competition from electricity since gas prices had fallen by 10 per cent since privatisation, while electricity prices had risen by 6 per cent.

Nevertheless, if electricity privatisation led to growing variations between tariffs around the country, gas prices might also have to be decentralised locally.



Evans: 'flexible style'

Although it could mean cheaper prices in some areas, it could also lead to compensating increases elsewhere.

There has been a uniform household gas tariff across the country for the past eight years and this year slight regional variations in standing charges were also removed.

Referring to the £2bn-£4bn which could be invested in new business ventures, he said this would help to correct British Gas's low level of debt, but that the company would not seek loan capital "for the hell of it."

The company intended to concentrate on activities which it did well, such as exploration and development of promising gas resources in various parts of the world. It also planned to focus on construction of gas transmission systems for other national utilities, such as a project it was currently carrying out with Shell International in Portugal.

The shake-up, said Mr Evans, would transform British Gas from a functionally-driven organisation to one in which operating responsibilities would be devolved to three units – UK gas supply, exploration and production, and business development.

Four of the executive directors would be in charge of UK gas supply, which currently accounted for more than 90 per cent of profits. The 12 regions would remain intact but divided into two groups of six, each headed by an executive director.

With 350,000 new consumers connected to the system last year, it was clear that there was considerable potential for expanding the UK gas business.

Doctors urge public outcry against health reforms

By Alan Pike, Social Affairs Correspondent

DOCTORS' leaders yesterday appealed directly to the British public to step up pressure against the Government's proposed National Health Service reforms.

The call at the British Medical Association Conference for the public to "wake up, speak up and stand up" was fortified by an opinion poll showing that even most Conservative voters believe the Government's plans will result in cuts in services and are the first stage towards the privatisation of the NHS.

BMA leaders are delighted with the results of the poll, conducted by Gallup on the Association's behalf between June 21 and 26. It shows that 71 per cent of adults disapprove of the proposals contained in the Government's draft health legislation. Only 15 per cent of those interviewed favoured the reforms.

Some 75 per cent of those polled, and 58 per cent of Conservatives, believed the changes would result in NHS cuts, while 73 per cent (53 per cent of Conservatives) saw them as the first stage towards privatisation. Most of those interviewed – 68 per cent – thought that the draft law was a cost-cutting exercise. Among Conservative voters, 43 per cent agreed with view, while 39 per cent disagreed.

On whether people believed the changes would lead to patients receiving the cheapest rather than the best treatment 62 per cent agreed overall, while 39 per cent of Conservatives agreed and 35 per cent disagreed.

Little more than a bare majority of Conservative voters – 52 per cent – agreed with the statement that "The NHS is safe in the hands of the Conservatives."

The poll results are significant for the BMA, since its leaders believe that their best chance of forcing the Government to modify its plans lie in convincing Conservative MPs that they are unpopular with voters. The BMA is appealing to opponents of the reforms to write repeatedly to their MPs.

The Government's proposals were condemned by all sections of the medical profession during yesterday's debate at the BMA Conference in Swansea. Dr John Marks, chairman of the BMA Council, drew repeated applause and a prolonged standing ovation during a speech in which he called upon the public to wake up to what was happening to the NHS under the guise of reorganisation.

"Stand up and defend what is one of our greatest national assets, devised before many of you were born, taken for granted by all for the last 40 years and there when you need it. You will miss it most terribly if it disintegrates," he said.

NatWest offers combined credit cards package

By David Barchard

NATIONAL Westminster, Britain's biggest commercial bank, yesterday unveiled a comprehensive credit card processing package for retailers aimed at taking business from Barclays and Lloyds banks.

Mr Derek Wanless, Director for Retail Banking, said the service, Streamline, would offer retailers combined Visa, MasterCard, and Switch services from July 24. He said it was the first time all three services had been available together to retailers.

Switch is an electronic debit card system jointly launched by NatWest, Midland, and the Royal Bank of Scotland last autumn. Around 10m Switch cards will be on the market by the end of the year, and retailers are expected to have 18,000 terminals in place soon.

NatWest has come to the market with a combined credit card service earlier than its rivals expected. Barclays and Lloyds have been offering joint Visa and MasterCard retailer services since spring and claim to have picked up market share rapidly.

Allied to reopen island distillery

By James Buxton, Scottish Correspondent

ALLIED DISTILLERS, the whisky arm of Allied-Lyons, is to reopen a malt whisky distillery at Ardbeg on the island of Islay, off the wes coast of Scotland.

Allied says opening of the mothballed distillery, the third it has announced in the past month, is an indication of its confidence in the revitalisation of the whisky industry.

The Ardbeg distillery was mothballed in 1981 in response to the growing glut of whisky on the market. It will be reopened before the end of this year and create 10 jobs.

Ardbeg will make a malt whisky to be used in blending Ballantine's Scotch whisky, which Allied claims is the fastest growing major spirit brand in world markets.

Allied, whose other brands include Teacher's, said last month it had bought two mothballed distilleries from United Distillers, the Guinness spirits subsidiary. The distilleries, Glentauchers and Imperial, both on Speyside, will be reopening over the next three months.

Last month Campbell Distillers reopened the Glenallachie distillery at Aberlour on Speyside. Two other distilleries have recently reopened in Scotland.

Distilleries are being reopened because individual groups are short of distilling capacity or anticipate shortages as stocks run down. With legal requirements for whisky to mature in casks for three years, it will be at least this period before the output of the reopened distilleries comes on to the market.

Mr Ian Burt, manager of Allied Distillers, said the company was forecasting a revitalisation of the whisky industry. Ardbeg would not be running at full capacity.

Housing starts fall sharply

By Andrew Taylor

THE NUMBER of homes under construction in Britain fell sharply during the three months to the end of May, according to figures published yesterday by the Environment Department.

House sales since last Autumn have plunged as mortgage interest rates have risen, pricing many first-time buyers out of the market.

Builders have been offering mortgage subsidies and other sales incentives in a bid to sustain sales which have fallen steeply since Easter.

Mr Clifford Easterbrook of C&G Estate Agents, part of Cheltenham & Gloucester saving institution, says work has halted on some building sites in south-west England to allow sales to catch up with construction.

According to the environment department, the number of new houses and flats started by builders during the three months to the end of April was 23 per cent lower than during the previous three months and 30 per cent less than during the corresponding three months last year.

The number of homes completed was 14 per cent lower than during the previous three months and 11 per cent lower than during the corresponding period last year. Private sector housing starts on the same basis were 34 per cent and and 24 per cent lower. Private completions were 11 per cent and 8 per cent lower.

The fall in new house sales has prompted some stock market building analysts to cut their forecasts of housebuilders' profits for this year.

Mr Tony Williams, analyst at stockbrokers UBS Phillips & Drew, says: "Profits of some builders will fall this year but 1990 looks like being worse."

He says builders this year have been able to reduce margins and stem some of the decline in sales by offering incentives to buyers.

Machinery policy 'a failure'

By Nick Garnett

BRITISH manufacturing companies are failing to invest in sophisticated and flexible shopfloor machinery and will lose market share to French and West German competitors unless they alter their equipment purchasing policies.

Traub, the German manufacturer of high-cost machine tools, said yesterday that the problem was most severe among small and medium-sized sub-contractors supplying the aerospace and vehicle industries.

"There is a great deal more investment in machine tools in the UK right now, but it tends to be more of the same thing rather than higher specification machines," said Mr David Smith, managing director of Traub in the UK.

"Many of the large companies like Rolls-Royce, British Aerospace and Lucas Aerospace are purchasing these machines. The smaller sub-contractors are not."

Traub says, however, that sales of such machines in France were half those in the UK several years ago, but the French market is now double that of Great Britain.

Such machine tools are said to offer higher efficiency and greater versatility for small batch production than lower cost equipment, but the initial investment outlay is high.

The UK market for machine tools, like the rest of Europe, has boomed in the past 18 months. It grew last year by 22 per cent to £605m from £481m. However, Traub, which sells between 85 and 125 machines a year in the UK, questions some of these purchases.

"There is still quite a gap between the technology levels of machine tools being bought by small companies in France and Germany and those in the UK," said Mr Smith.

Traub believes this could signal an assault on the UK sub-contracting market by continental European producers.

Child abuse numbers show dramatic rise

By Joel Kibazo

THE NUMBER of children registered as abused in England and Wales more than doubled in between 1983 and 1987, says a report published yesterday.

The report, from the National Society for the Prevention of Cruelty to Children, deals with those children notified to child abuse registers maintained by the NSPCC and is based on figures collected by the society since 1973.

The number of children registered rose to 2,307 in the period 1983 to 1987 from 1,115 in the preceding five years. The rises were most marked in 1985 and 1986, when over a third more children were registered each year.

The number of children registered in each category of abuse increased over the five years but the proportion of registrations varied by the type of abuse.

Overall, 49 per cent of registrations were of physically injured children, 25 per cent were so-called "at-risk" cases and 19 per cent were sexually abused children.

Some 5 per cent of the registrations were for neglect and 2 per cent each for what is termed "non-organic failure to thrive" and emotional abuse.

Sexual abuse was the category which saw the biggest increase, with a twelve-fold increase in registrations, from 5 per cent of the total in 1983 to 28 per cent in 1987.

The number of children physically injured, while rising in absolute terms, fell from 60 per cent of 1983 registrations to 35 per cent of 1987 registrations.

Less than half of registered children were living with both their natural parent and the stress factor ranked most severe for the registered children was "marital problems."

The report also said mothers and fathers of registered children were more likely to have a criminal record than in previous years.

The report shows there is a significant difference in types of abuse by age of child.

A greater number of younger children were registered as sexually abused, and the registered children were mostly from young, large and materially deprived families and most likely to require legal protection.

Child Abuse: Trends 1983-1987. NSPCC. 67 Saffron Hill, London EC1N 8RS. £2.95.

MANAGEMENT

Earlier this year, **Clive Wolman** completed a part-time Masters of Business Administration course at the London Business School. These are his recollections

'How ever did I find the time?'

In retrospect, I – like most other people on the programme – cannot understand how I managed to find the time to devote to the course: three weeks of annual holiday, one Friday every fortnight during term time, plus an average of six to 12 hours "homework" each week for three years.

Some people failed to find the time. The drop-out rate on our programme was higher than in previous years. Of the 62 starters, only 48 survived until the four four-hour final examinations held just before last Christmas. And 44 passed. The most common reason for dropping out was a change in job or family circumstances.

Some students thrived on the pressure. Tony Poulter, who started as a civil servant and moved into management consultancy during the three years, found it "very stimulating and, at the age of 30 or so, a great change being with people from different backgrounds. It made me very productive and positive at work."

But most students found the juggling act more difficult. Peter Riches, who works for Texaco, says: "I did not conceive how much I would have to adjust my life. It was essential to have an indulgent employer and an indulgent family."

The redeeming feature was that the head of the part-time programme, the Registry and all the administrative staff were consistently supportive and sympathetic to individuals and their personal difficulties.

The pressure of work varied greatly. There were two particularly difficult periods when there was a rush of assignments and exams. These were over the Christmas period at the end of the first year – when there was a high toll in drop-outs with the end still far away – and in the January-March term in the third year.

I found the first two terms easy going. They were intended to be; students should not drop out in despair immediately. But those who were unacquainted with any of the four subjects we were studying at the time found the experience stressful.

It was only after the first two terms that we had to embark on seven elective courses alongside the 21 compulsory ones – and to come in on at least one extra morning, afternoon or evening each week to do so. But, in spite of the official warnings and declarations of principle, we didn't have to show up all the time, or even most of the time.

LBS offers an unusually wide range of electives, about 30 every term, although many of them reflected the current – and sometimes obscure – research interests of the lecturers rather than genuine student demand. Some students argued that the programme could have been shortened and by the third year several elements were repeating themselves.

For example, privatisation was tackled, albeit in different ways, in two economics courses and in management policy, finance, management accounting and the government and industry courses.

The case studies also focused successively on a small number of industries, in particular US airlines.

Some students said they would have preferred a less conventional and more tailor-made approach. Gill Avery, who was promoted to be head of an organisational consultancy unit at British Telecom during the programme, feels that it relied too much on traditional teaching/lecturing methods. "Ideally the course would have drawn more on the individual's experiences in managerial positions," she says. "This could have allowed us to step back to review and plan our activities."

Two other weaknesses of the programme were commonly identified. One was that the enthusiasm for preparing cases and doing projects in groups died away after the first year. Most subsequent "group" assignments were carried out by group members individually on a rota basis.

Second, no lecturer made an effective assessment of participation in class discussions on case studies. Instead we all focused on the written assignments and on the examinations – both intermediate and final – and spent relatively little time preparing for class discussions.

The courses and the lecturers varied greatly. A few contributed very little. Most were good enough to add insights, a framework and a discipline to a subject that we could not have gained from reading. And a few were able to transform students' understanding and perceptions of a subject. That was particularly true of economics and of finance, in which LBS's reputation is strongest. It was a subject that most people on the course started off knowing or caring little about but ended being fascinated by.

Probably the most valuable part of the course, the longest and most difficult on the programme, was in the application of financial concepts to the making of strategic investment decisions.

The only drawback of the course was that in some respects it was probably too sophisticated, academic and technical. Much of what was taught about the capital asset pricing model – and to a much smaller extent, modern portfolio theory – was well beyond the concerns of corporate treasurers or City practitioners. And we had to spend far too much time, both in the case studies and in the finals, carrying out routine calculations – rather than applying concepts – for the purposes of investment appraisal.

'We ended up fascinated by economics'

The divisions and disputes between business school finance and accounting departments are legendary. But the failure to integrate the different courses and to show how one approach could be reconciled with the other added to many students' confusion.

The other frustrating failure of co-ordination was between the teaching of operations management and the two one-week series of visits to factories. In the first year, we travelled to south Wales, in the second year to Singapore.

Many of the potential benefits from our factory tours were dissipated because we didn't know what to look out for or what questions to ask. (The current MBA courses are apparently being altered to improve this problem.)

Although the MBA has traditionally been seen as a way into some specialist City jobs, the elective courses on small business, entrepreneurial management and new venture development were over-subscribed. But the students were divided about whether the programme was capable of fostering entrepreneurs, as well as corporate bureaucrats.

Tim Jackson left the PA Consulting Group in Cambridge after finishing the course to set up his own consulting company, Plextek, which specialises in electronic communications systems. "The MBA was not very practical," he says, "but it made it much easier to write a business plan. It teaches you how to think in terms of strategy and risk and return when quoting for a job."

The MBA enabled Peter Riches to move from the exploration department of Texaco, after 14 years, to become head of marketing development in its UK subsidiary. He highlights the difficulties for MBAs within large organisations. "A language barrier exists between the MBA student and someone with practical training and it can be difficult to communicate the concepts and principles without seeming arrogant," he says.

In spite of the reservations, our group agreed almost unanimously that the programme was enjoyable and that their investment in time and money had already paid off. In monetary terms, the investment was laughably low. For us it averaged only about £1,600 per year – and employers picked up that bill for most students. Now the fees have been raised to about £3,500 per year, because of the cutbacks in Government funding, but that still represents a subsidy of more than a third of the costs.

Well over three-quarters of the group were given a major promotion late in the course or immediately after it.

Some students were asked in the finals exams to carry out a discounted cash flow analysis based on a hypothetical student's earnings before and after the course. The correct answer was that the investment had a high positive value. Everyone agreed that reality approximated to the exam questions.

Whitehall counts the cost of staff motivation

Hazel Duffy reports on performance measurement in the civil service

A couple of dozen senior civil servants listened somewhat incredulously to the man from Hanson as he explained his group's employee incentive schemes at a recent seminar.

It was not the methodology which had the pens suspended momentarily. It was the amounts of money. Tony Cotton, associate director, explained that Hanson, the Anglo/US industrial holding group, believes incentives work only if, potentially, they are big. For those employees who succeed by exceeding agreed targets, the reward needs to be large enough to buy a foreign holiday, or a car, for instance. In exceptional cases, it might be as much as 30 per cent of a salary which is almost certainly higher already than in the public sector. Conversely, it could be zero.

In the civil service, pay is negotiated nationally by the Treasury and trade unions. Special pay allowances are creeping in to reward performance and deal with difficulties, such as recruitment in certain parts of the country and skill shortages. But the variable pay element is much smaller than at Hanson.

Ron Oliver has been chief executive of the government's Vehicles Inspectorate (it carries out the equivalent of the MoT for commercial vehicles and buses) for the past year. The VI was the first civil service operation to be set up as an agency with the task of carrying out executive work.

The VI has been set an "efficiency savings target". If it exceeds the target, there will be cash bonuses for all staff. A few people in key positions could also benefit from a scheme still under discussion with the unions and staff.

Ron Oliver, like chief executives in other new agencies, has a separate contract which provides for a bonus at the end of the period. But the amounts are likely to be small.

Tony Cotton believes the agencies must have more pay flexibility at their disposal if they are to work. Indeed, parts of Whitehall are increasingly thinking along the lines of incentives to motivate and improve performance in the public sector. That much emerged from the seminar, organised by the consultancy arm of Ernst & Whinney and the Cabinet Office.

The subject was the management of large dispersed organisations. Hanson was a highly appropriate choice. The "hands off" holding company has many parallels with the sort of structure which Whitehall's optimists hope will emerge with the new agencies.

Candidates for agency status include the Department of Social Security – where John Moore, Social Services Secretary, plans to split his department into two or three agencies – the Employment Service, as well as more specialist activities like the Meteorology Office and the Ministry of Defence's research laboratories.

How will the Treasury and the department, of which the agency will remain a part, delegate and yet still maintain control? The question will become more important as the agencies to be created, and their corresponding budgets, will be much larger than at present.

Private sector experience in delegation and control is worth considering. Charles Green, director and deputy chief executive, National Westminster Bank, explained how the structure was organised so that control could be exercised without excessive intervention.

The strategic framework is drawn up by a committee which meets five times a year. The group as a whole is directed by the people who have control of the business strategies.

The aim is to separate the people who run the group from the people who run the businesses. The latter must be given financial responsibility. They can take risks up to a prescribed level.

In the Department of Trade and Industry, a lot of attention is being devoted to this topic. The DTI's first agencies have come from its regulatory and research areas.

The chief executives report to a line manager (a high ranking civil servant), who is advised by a steering board of representatives from business and the public sector. The board does not make decisions.

Agency chief executives have been made the accounting officers for their agencies – a government move which was significant in terms of identifying them to Parliament. They can be questioned by the Commons Public Accounts Committee. They can also be called to appear before other Commons committees on matters which affect the public, for instance.

The permanent secretary of the department remains the departmental accounting officer. He can still be questioned on issues relating to the agency, although MPs will be encouraged to approach the chief executives directly.

To the outsider, these are arcane distinctions. But they matter within Whitehall, where the tradition of Parliamentary scrutiny is viewed with respect and sometimes fear.

There is no equivalent in the private sector. National Westminster Bank is responsible, of course, to shareholders, as well as its employees and customers. But there is no parallel with the National Audit Office and the public sessions of the Public Accounts Committee.

There need to be variations on the private sector theme:

- The civil service sometimes comes directly into contact with the public, for example in the Vehicle Licensing Centre. Sometimes it is a monopoly, sometimes a near monopoly. Only rarely is it in competition with the private sector. Customer discipline, such as on the banks and building societies, is therefore absent.
- Some civil servants want to give a better service to their customers. Ron Oliver is piloting a scheme for testing vehicles outside normal working hours. But the main discipline is the emphasis which the Prime Minister has placed on a more efficient public service. Performance targets are based on cost-cutting, not profit or market share.
- The dividing line between who does what at the centre and in the subsidiaries, or branches, is not always easy to draw in the private sector. But it will be more difficult in Whitehall. The operations to be set up as agencies will be more directly implicated in policy decisions taken at the centre.
- The implications of the agency movement on the traditional recruitment methods into the civil service – open competition and a career for life, which at senior levels span more than one department – have still to be sorted out.
- More freedom for the chief executives to recruit staff and pay them according to the demands of the agency is a must.

Despite the differences, exchanges between civil servants and senior executives bring some benefits. Ideally, it would be more two-way. Middle and senior managers might even learn from the public service. Most top civil servants probably still, in their heart of hearts, are thrilled more by working with ministers than managing. But there is also a much higher awareness in Whitehall of what makes for good management than the private sector realises.

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JOBS

The hidden operations that shape careers

By Michael Dixon

IT IS a truth universally acknowledged, that all people who read the Jobs column must be first-rate at what they do for a living. Even so, how much do you readers know about your underlying abilities?

Take for instance logical thinking, which people in jobs depending largely on mental work tend to believe they are good at. Can you work out the one certain conclusion that can be logically drawn from the following two premises?:

1. – All of the bankers are accountants.

2. – None of the chief executives are bankers.

My reason for asking those questions is that after being a journalist for 29½ years, I have just learned something that shook me to the boot-soles. And if that can happen to someone who in the course of his job has taken almost every standard psychological test there is, it seems a fair bet that a lot of other folk have long been labouring under a false impression about their basic approaches to working.

One of the fundamental influences on people's approaches was identified by the brain research of Professor Roger Sperry, which won him a Nobel Prize for medicine in 1981. He found that the brain is divided vertically into two halves, each with a different function, and that people tend to operate primarily with one side or the other.

The right half deals with complex reality as a whole, building the details into a rounded picture much as the eye takes in a landscape. It is the right side which is thought to underpin artistic and other essentially "synthesising" activities including engineering design and the like.

The left half's function is to analyse the complex into various component parts, and sort them into rational order. The left side governs activities such as writing grammatical sentences as well as solving logical puzzles.

Now, having taken an interest in logic for some years, I have become fairly good at it. For example, I didn't have much trouble in solving the particularly hard problem cited earlier, the answer to which is "some of the accountants are not chief executives." So, as I also write (I hope) grammatical sentences for my near living, I have looked on myself as very much a left-side-of-the-brain operator.

Then the other day I went to a seminar held at the Dartington conference centre in Devon as part of a world-wide project run from the International Management Institute in Switzerland. Unusually for a pukkah business school, the IMI has recognised that many if not most managers rely greatly on intuition in their work. It has therefore set up a detailed study of intuition with the aim of enabling executives to use it better.

The Dartington seminar was attended by 15 people from various fields of work, some of whom (including myself) have shown no evidence of being intuitive whereas others had proved themselves outstandingly so. For example, one of the latter is Mike Horner, engineering strategy manager for Digital Equipment Corporation in Europe, who is evidently employed first and foremost to use his intuition about new technological developments.

A prime object of the seminar was to test whether there were any detectable differences between the mental operations of the proven intuitives and those of the rest of us. Accordingly we were all wired up to assorted instruments, one of which displayed the patterns of electrical activity taking place in the upper brain.

Since I was unable to stay for the second day of the event, I'm afraid I do not yet know what conclusions the leaders of the study project reached. But one thing that did emerge clearly is that, whatever is happening in the Jobs column's brain at any particular moment, it is going on mostly in the *right* half thereof.

At which point a good many readers are no doubt asking "so what?"

Well, on the general plane, it seems to me that such information must have an important bearing on the question of career choice – which at present is usually a haphazard process indeed. If young people could be given a better understanding of their fundamental ways of operating, there might well be fewer misfits in the working world.

As for my own case, the information has come too late to be acted on even if I did not like being a journalist – which I do. Nevertheless it has been a help.

It is no secret to my colleagues responsible for getting the FT printed at the end of the day that, by journalistic standards, I am a painfully slow writer. But that is surely only to be expected of us right-brain operators, to whom writing is an unnatural thing to do. So the discovery at Dartington has at least given me an *explanation for my slowness*, even if my colleagues might see it rather as an excuse.

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1,401-2,000	2,850	3,310	3,420
2,001-3,000	4,900	5,520	5,680
3,001-4,500	6,280	6,970	7,140

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At most 50,000	29	30	27	33	29	27
51,000-60,999	50	50	53	44	53	55
61,000-70,999	14	–	13	–	12	–
71,000-plus	7	20	7	23	6	18

Cars' worth

NOW to some information for left-hand-side-of-the-road users – readers in Britain who have company cars. The table above shows the value of four-wheeled perks to their possessors, as estimated by the PA Consulting Group in its latest survey of executive fringe benefits in the UK.

The top half of the table starts with various engine-sizes. Then comes the worth of cars in each size-range to *the users who have to pay for* the fuel for non-business motoring. Next we have the value when the company funds unleaded petrol for 8,000 miles of private travel a year. The right-hand column shows the value when the employer covers all the cars' costs. The figures are not adjusted for income tax.

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مكررا من الاصل

TELEVISION

No 'yoof' appeal in special programmes

The relationship between television and yoof (as youth will continue to be called, so long as Janet Street Porter looms large in the business) is still strained – thank goodness. Thank goodness, because the strain suggests that young people are still rebelling against the habits and tastes of their elders which is, surely, a sign of health in any society. That, anyway, is how it seems.

In reality the strain probably has more to do with poberty than anything else, indicating that, despite all the efforts of the feminists to turn us into a race of androgynous wimps, the sap still rises, and from the age of about 16 to the age of about 24, sexual interests continue to represent a major preoccupation. Television is not only the most sexless of all forms of mass entertainment, it is also watched in the home. Young people consequently spend their spare time in pubs, country lanes, cinemas (which they frequent far more than older people) discos, disused aircraft hangars, and indeed almost anywhere rather than in front of the television.

In other words, the abnormally low level of viewing among 16 to 24 year olds (they watch only 17 hours a week *on average*, compared with the national figure which is nearer 28) arises more from socio-biological factors than from any deep dislike of programme content. We know precisely what sort of programmes most people of this age prefer when they do decide to do a bit of viewing: *Coronation Street, The Bill, EastEnders, Neighbours, Top Of The Pops*, and *Brush* exactly the same programmes that are preferred by most people in other age groups.

All this has been known for a long time, yet in the last five years or so there has been great heart-searching among broadcasters because it is said that television is failing yoof. Of course the increased programme activity in this area is due in part to the demands of marketing men. Ever since the invention of "teenagers," advertisers have been trying to refine the means by which they can target the yoof market.

But the effect is not limited to commercial television. Though she launched *Network 7* on the commercial side, Janet Street Porter was then offered more money to go to the BBC and organise similar programmes for them. Leaving aside the demands of the advertisers, the thinking seems to be that if you make special programmes for children and for elderly people then you must also make special programmes for yoof.

This is not as logical as it sounds because whereas children do have fundamental characteristics in common (notably a lower intellectual ability than that of the average viewer) as do elderly people (more rapidly declining health than the average viewer) the same is not true of yoof – unless you count that burgeoning interest in sex. Broadcasters would run a mile rather than attempt to cater for that interest and incur the wrath of such moral giants as Lord Rees-Mogg and Mary Whitehouse.

While the number of older people in Britain is rapidly rising, the number of young people is steadily falling. Between 1986 and 2001, numbers in the 15 to 29 age group will decline from 13.3m to 10.75m. That in itself could be a reason for shifting resources away from yoof and towards the aged. But the idea of attempting to make programmes specifically for those aged between 16 and 24 is, in any case, as silly as trying to make special programmes for those aged between 31 and 39 or 48 and 56.

It is almost certainly true to say that, despite their declining numbers, there are more people in the 16 to 24 age group in the UK today who are interested in classical music, horse riding, amateur dramatics, skiing, wine, gardening, cars, chess, psychiatry, computers and photography, than ever before. Yet an awful lot of yoof programmes – in fact most of them – appear to have been produced in accordance with a book of rules which

There is nothing wrong with 'trend' programmes, but by labelling them 'yoof' and handing them over to the yoof producers with their belief in 30-second attention spans, you kill the thing stone dead

states that:

1. Young people are thick.
2. Young people have an attention span akin to that of a grasshopper.
3. Young people are interested in pop music, fashion, Aids, and little else.
4. While viewers of all ages from 5 to 95 are perfectly happy watching presenters whose ages are quite different from their own, young people are incapable of tolerating anybody who is even marginally outside their own age group.
5. Though black people constitute only five per cent of the population, this proportion should be misrepresented by a factor of about ten in all yoof programme.

True, not all these rules apply to all yoof programmes, but I have never seen one yet where none of them applied. The two series which have caused most fuss recently are *Def II* on BBC2, an umbrella title for Janet Street Porter's programmes, and *Club X* on Channel 4.

Occasionally you will find something really excellent in the *Def II* slot. For instance *Three Wave Classic* was a 30-minute gem about wind-surfing at Tiree in northern Scotland, beautifully photographed by Garry Morrison and put together in a neat and telling way by director Hamish Barbour and editor Chris Mason. But it was a repeat of a programme originally transmitted in Scotland, and it is not clear what was achieved by hiding its national screening behind the *Def II* umbrella, except the absence of most wind-surfing enthusiasts.

Rough Guide To The World is just about the best travel programme now running on television. The presenters, Magenta de Vine (she will probably regret that one day) and Sankha Guha, seem to have been chosen because they are good at programme presentation: both bright, both articulate, and she with a useful ability to inject the occasional squirt of acid. The producers still allow form to dominate content sometimes, but never to the absurd degree which ruined *Network 7*.

Even more infrequently you will find something worthwhile on *Club X*. There was, for instance, a weird but rather attractive ballet, danced in a night club by three ballerinas, accompanied by disco dancers and drag queens, performing en masse to Abba's "Dancing Queen." And once in a while the "Buygones" spot with its review of forgotten kitsch achieves a wonderful atmospheric timewarp effect.

However, one presenter appears to have been chosen because she is black and the other because he is Irish. Any other qualifications are being carefully concealed. The words used to introduce an item on photography were: "Now, these are some of Bruce Webster's photographs, now he is amongst a number of artists who have used the beautiful male body – right? – to compose photographs are erotic and stunning in their photography." Which looks awfully like ammunition for Prince Charles.

There is nothing wrong with "trend" programmes. Indeed, television is a particularly good medium for dealing with fashion, whether in clothes, dance, food, custom cars, or interior design. London Weekend's *South Of Watford* proved just how well television can handle such material. The trouble is that by labelling it "yoof" and handing it over to the yoof producers with their belief in 30-second attention spans, and the need to say "Right?" every seven words, you kill the thing stone dead.

Thus the objection to yoof programmes is not only that they are deeply patronising to the young, with their assumption that anybody between 16 and 24 must be a rock and roll wally with pot noodle between the ears. Worse than that, by driving subjects into a yoof ghetto, television ensures that all of us, whatever our ages, are deprived of intelligent analysis of current trends in the arts, entertainment, and contemporary culture in general.

Television should abandon the adman's trick of trying to target demographic groups, and simply make the best possible programmes on all subjects, appealing to all enthusiasts, whatever their ages. There is no law that says rock and roll, clothing fashions, the club scene, and avant-garde art have to be discussed or viewed exclusively by inarticulate teenagers.

Christopher Dunkley

Alastair Muir

Mabel Guzman and Aldo Parodi

La Negra Ester

RIVERSIDE STUDIOS

The fifth London International Festival of Theatre, LIFT, opened last night in Hammersmith with a touching, colourful Chilean folk play about the love of a poet for a prostitute around the harbour of San Antonio in the 1940s. And if that sounds like a recipe for winsome ethnic sentimentality, do not be deceived. The show is simple and primitivist, but no more insubstantial than the love songs of Pablo Neruda or, for that matter, Jaques Brel.

The poet here (and present in the audience last night sporting a brown pork-pie hat) is Roberto Parra, impersonated on stage by a wonderful clownish man, Boris Quercia, who resembles a sly amalgam of Groucho Marx and Don Ameche. He inveigles himself into scenes like a cat burglar, *declaring his identity with snake-hipped sideways dance movements* and a self-advertising repertoire of shrugs and embraces.

The text of his affair with the exotic Ester (Rosa Ramirez) is based on a sequence of ten-line stanzas, *decimas*, composed by Parra to reflect his own historic infatuation. Around this couple, the brothel life is set to a compelling agenda of music – cakewalks, tangos, salsas, waltzes and cuecas – played by a trio of musicians who switch instruments with a dazzling virtuosity. The basic line-up is trumpet and two guitars, but we also have Chinese blocks, banjos, a clarinet, accordion and even – for a home-coming of beautifully artificial verismo – an old wind-up gramophone.

A vanished era is evoked, which is just as well given the state of things under Pinochet since 1973. A subtle note in the LIFT newspaper suggests there are profound reasons for the absence of direct political comment or satire. It would be more honest to state merely that *La Negra Ester* is a characteristic LIFT catch of South American exotic folk theatre, though I do not think it rates in the same class as the Brazilian *Macunaima* or the Mexican Divas.

The production of El Gran Circo Teatro sits well in the Riverside, a platform area bounded by naked coloured lights and a balsa wood shanty town. A resident statue of the Virgin Mary is turned upstage when the whores assemble, one of whom is the director, Andres Perez, in drag. Eye make-up is pronounced, and I am talking only of the men. The brothel caters for all tastes, with the emphasis on the Oriental and a fetching hostess in stockings and suspender belt.

None of this is gratuitous or unpleasant. The evening has an insidious charm of a love affair recollected in both anguish and tranquillity. The band look like how I might have visualised trainee members of the Edmundo Ros Orchestra, in mildly vulgar checked jackets and mustard shirts.

The rather casual dramatic interest is sustained with a number of set-pieces – a seaside party costumed in black and white ("A day off at the brothel, and the action moves to a beach" reads the helpful programme synopsis at this point); the delivery of a bed to the brothel; a wedding party where Ester is charitably consigned by the poet to a grateful old cobbler.

Through it all, Boris Quercia, in close-shaven stubble and a mood of despondent stoicism fixed on a jawline with the down-turned width of Donald Duck's, moves with a fine and affecting insouciance. The show becomes the sum of its moods and musical effusions, and these are considerable. The big guns may yet be fired in this year's LIFT, but the jamboree *is off* to a good start.

Michael Coveney

Schubertiade 1989

HOHENEMS, AUSTRIA

There were moments during this year's Hohenems Schubertiade when one had to pinch oneself to be reminded that this really is one of the great events in the European summer calendar – while putting up, for instance, with the antics of an accompanist who should perhaps not be playing in public (certainly not to a public that pays), or waiting impatiently for an illustrious String Quartet to find its form. But all that is beside the point: what makes Hohenems unmissable is the privilege of *spending anything up to fortnight* (a week is probably enough for all but the toughest souls) in the company of a composer who speaks with an intimacy and directness that bridge the years a good deal faster than the speed of sound. In that context, the odd duff performance is easily to be tolerated.

A greater danger than unevenness of quality lurks, however. Hitherto concerts have been based on the enchanting but hideously uneconomical Palace of Hohenems, either the Rittersaal or the Courtyard; it is the intimacy of venue that lends the festival its special attraction, and for that one happily puts up with the *occasional foray* to the unlovely but acoustically ideal Stadtsaal in Feldkirch, a charming little mediaeval town that nevertheless seems to have more than its strictly fair share of winos and druggies.

But the Hohenems Palace is in urgent need of repair, an important international textile exhibition, supported by the Austrian state, represents an offer that the present owner is in no position to refuse however much it may interfere with the Schubertiade. This year there were no concerts in the Courtyard, and in a couple of years time it seems likely that that Rittersaal will be available only in the evenings to artists and audiences alike.

Meanwhile, new venues have been found: the magnificent Baroque Basilica at Birnau on the north shore of Lake Constance, at which this year's festival opened (*ohne*, alas, *mich*); and the concert hall of the Vorarlberg State Conservatory in Feldkirch, which seats almost *twice as many as the Rittersaal* but whose acoustics are, on the misty side. Yet another Feldkirch hall will be tried out next year, and the fear on all sides is that the whole enterprise will slowly shift from cosy Hohenems to more convenient, more economically viable Feldkirch. Whether or not the burden of British visitors (their presence betokened by the unmistakable whiff of damp tweed in inclement weather) will put up with this remains to be seen; there are so many of them that one is tempted to suggest moving the whole jolly shooting match to Malvern and have done with it.

But no, context of place in this very Austrian corner of *Austria is as important as context* in programming: the otherwise very special quality of Hohenems is that the acknowledged masterpieces are heard in amongst apprentice works, juvenilia even – Rambling Sid Schubert does occasionally raise his head, though few composers ramble so amiably. What on earth, one wonders nervously, happened to the boy who wrote the joyful triple-time, near-unison string quartet D 32 in the 14 years that led to the manic G-major quartet of 1826?

The latter wound up the Tokyo String Quartet's five-concert cycle, which started uneasily (the sound relentlessly sweet, the textures too homogeneous) but ended on several notes of triumph. Earlier, it was the pieces rather than the playing that held the attention, especially the schoolroom ones, where you could hear the boy suddenly realising he had done enough fugato development to earn good marks and it was time to stop and get on with something else (i.e. the next movement).

The Lieder programmes were devised by opus number and publication rather than theme, which meant that one heard any number of (justifiably) obscure songs that gave the singers not a few problems. Olaf Bär, for one, had a stinker of a programme, and sounded tired into the bargain; for all the smoky sweetness of his half-voice (*Ganz* from Hymettos)one longed for a little edge and metal in the tone to enhance his matchless sense of line. Andreas Schmidt (Covent Garden's fine Guglielmo earlier this year) had a similarly tricky programme and the additional burden of the unpredictable accompanist, which he shook off only for a resoundingly stirring "Gruppe aus dem Tartarus." Brigitte Fassbaender, similarly burdened, nevertheless managed a triumphant "Schwanengesang" – her first ever, unbelievably – and wrang all our withers with the six Heine settings (the "Doppelgänger" especially hair-raising). She is the most generous and imperious of recitalists: her singing of the last line of the Rellstab "Ständchen" ("Komm, beglücke mich") as an urgent order was one that few in the audience should have been able to resist.

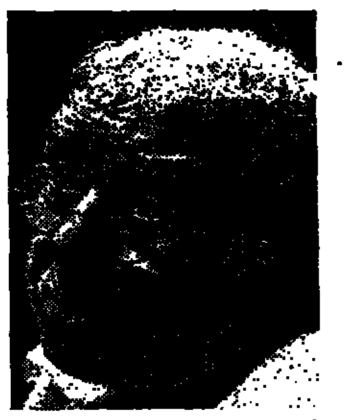
Peter Schreier, in two recitals, peerlessly accompanied by András Schiff, dealt deftly with a mixture of the familiar and otherwise. The reporter in me compels mention of an acid edge to the tone nowadays when under pressure at the top, but the music-lover has to report ever-greater flights of musicianship and insight, especially in partnership with this prince of accompanists. The odd accident apart (they performed "Heidenröslein" in slightly different keys) these were occasions for joy unrammelled. An oddity like "Edafsee" was made to sound great, and Schiff's performance of the Allegretto and Abschied" made it plain why it is so rarely heard: whoelse could play it with such precision and wit?

Schiff's solo recital included the unfinished sonatas D566 and D840, those two supremely "Wittgenstein" outpourings from a mind on the point of disintegration, and the C-minor D958, which is scarcely less alarming. People who think of Schiff as a contemplative, detached pianist will have been surprised, nay, frightened at the grandeur and violence of his playing by the end of the Mahlerian Dance of Death that is the finale of 958, he looked as shattered as the audience in the Rittersaal felt. It could only, I think, have happened at Hohenems.

Rodney Milnes

A Song in the Night

LYRIC, HAMMERSMITH



Alastair Muir

Freddie Jones

John Clare was born of Northamptonshire peasant stock in 1793 and died of a seizure at the age of 72, after more than 20 years in a lunatic asylum. The agonies and ecstasies of the poetry have given him the dubious honour of a ranking alongside Virginia Woolf for one of literature's most celebrated descents into mental breakdown. Both have now been taken up by director Patrick Garland, whose adaptation of Woolf's essay *A Room of One's Own* is no sooner ensconced in London than it is followed by this haunting evocation of demented genius.

Garland's contribution to the tradition of literary portraiture in contemporary theatre has been a heroic reminder of the dramatic power of words, even if one suspects the intimacy of this particular show would have been better suited to a more intimate space. It has also provided an effective vehicle for the holding powers of a single actor working with a minimum of external support.

The actor in this case is a marvellous Freddie Jones, who enters the stage, agricultural smock tucked into his belt, eyes glinting mistily through little gold specs. It is the sort of performance that picks you up and carries you bodily along, through anecdotes and observations into little peaks of poetic conception and great troughs of personal despair.

Roger Frith's script gathers into a single portrait the jumbled delusions of a chronic schizophrenic, revealed through increasingly tormented letters to Clare's family, and a body of poetry which seems to see through to the heart of the matter. Love and nature are abiding themes, the former increasingly tied up with confused memories of his childhood sweetheart, Mary, and the latter a cruel reminder that he himself is "caged and living."

Clare's escape from a private asylum in Epping Forest is recounted with a feeling for every blister accumulated along the way, while his final capitulation to the shakes of terminal illness carries an almost unbearable courage. Studding the evening are the poems themselves, some surprisingly trite in metre and concept; others scorchingly familiar.

I Am, survivor of many a school speech competition, gains a whole new dignity when spoken in the broken rhythms of a broken old man, whose body unfolds the articulation of the man only to hunch forlornly back at its upbeat end; Clare the man cannot see the "vaulted sky" about which Clare the poet writes so beautifully.

Claire Armitstead

ARTS GUIDE

June 30-July 6

THEATRE

London

The Merchant of Venice (Phoenix). Dustin Hoffman's Shylock a sympathetic, semaphore-gesturing alien in Peter Hall's fine Venetian Renaissance production, Geraldine James a superb Portia (836 2294).
Much Ado About Nothing (Strand). Alan Bates and Felicity Kendal lead strong ad hoc company in turnabout fortnightly rep with Chekhov's early, astringent Ivanov. Not to be despised (836 2660).
As You Like It (Old Vic). Yet more non-RSC Shakespeare, with an outstanding Rosalind from Fiona Shaw in eclectic, enjoyable Tim Albery revival. Ambitious designs (928 7616, cc 261 1821).
The Black Prince (Aldwych). Ian McDiarmid gives the performance of a lifetime in Iris Murdoch's distillation of her own Hamlet novel. Witty black farce, vitriolic and entertaining (836 6404).
Ghetto (Olivier). Brilliant National Theatre version of Joshua Sobol's Israeli play about the last days of the Vilna ghetto and its resident theatre company. Moving and shocking. Nicholas Hytner directs, Bob Crowley designs, good music arranged by Jeremy Sams. July 7-10 (928 2252).
Single Spies (Queen's). The highlight of Alan Bennett's double bill is a comic confrontation between Prunella Scales as Her Majesty the Queen and Bennett himself as Anthony Blunt in the royal picture gallery. Clive Francis plays Guy Burgess in a rehash of Bennett's fine TV film *An Englishman Abroad* (734 1166).
Brigadoon (Victoria Palace). 1947 Lerner and Loewe "heather-scented" Scottish fairytale hit is handsomely revived and well sung, less frail than expected (834 1317, cc 836 2428).
The Vortex (Garrick). Maria Aitken and Rupert Everett in brilliant reappraisal by Philip Prowse of Noel Coward's 1924 study of drug addiction and mother fixation. A must for yuppies (379 6107, cc 741 9999).
Henceforward (Vaudeville). Martin Jarvis and Joanna van Gyseghem in bleakly funny and experimental Alan Ayckbourn comedy of future shock and strained marriage. A tale of obsession, devotion, computer music, women as robots, gangs on the streets and a tug-of-love (836 9987, cc 741 9999).
Aspects of Love (Prince of Wales). Andrew Lloyd Webber's latest is an intimate chamber operetta derived from David Garnett's 1955 novella. Musically interesting and well directed by Trevor Nunn, a cast of unknowns project the right sense of sybaritic insouciance. A probable, but unspectacular, hit (839 5972).
Ivanov (Strand). Alan Bates and Felicity Kendal lead a new ad hoc classical company in Chekhov's first play, translated by Ronald Harwood, directed by Elijah Moshinsky. Bates interestingly renders the critical suicide a Simon Gray character (836 1660).

Hamburg

The World's Theatre. The international festival from June 16 to July 9 takes place in Hamburg, as part of the town's 800th anniversary of its harbour. Organised by the Thalia Theatre with the help of the International Theatre Institut, some 34 pieces from 17 countries will be performed, among them East Germany, the Soviet Union, Sweden, South Africa, France, the USA, Britain, Germany and Italy. The idea for the festival came from former theatre director Ivan Nagel, who formed the Theatre of Nations in 1979. Richard von Weizsäcker, West German President, is chairman of this year's festival.

New York

Heidi Chronicles (Plymouth). Wendy Wasserstein's award-winning drama covering 30 years in the life of a successful American baby boomer goes from support for Eugene McCarthy's presidential aspirations to electoral ambitions in the 1980s, accompanied by the musical and emotional flavour of the period (239 6200).
Twelfth Night (Delacorte). Jeff Goldblum heads the cast in this free outdoor performance in Central Park that begins the New York Shakespeare Festival's nearly 30th year of culture by moonlight. Director Harold Guskin has elegantly set the comedy in designer John Lee Beatty's version of turn-of-the-century Monaco. 81st Street entrance on the west side. Ends July 23.
Lend Me a Tenor (Royale). A sprucing up in the set of a decaying town's big time opera ambitions makes a transatlantic hit of this farce, first produced in London, but now with a local cast led by Philip Bosco and Victor Garber (239 6200)
Shirley Valentine (Booth). Pauline Collins brings her West End triumph to Broadway in Willy Russell's amusing and touching story of a Liverpool woman's awakening in the Aegean Sea. Simon Callow again directs without smoothing any of the Northern English edges that retain an authentic touch.
Jerome Robbins' Broadway (Imperial). Anyone attracted by the notion of a three hours of film trailer previews will adore this compendium of Robbins' directed and choreographed plays of the past 40 years, including On the Town, West Side Story and Gypsy. The lustre of the credits is dimmed by the brevity of each piece, with a contemporary crew of Broadway aspirants who lack the multi-talents that inspired the heyday of the musical.
Rumours (Broadhurst). Neil Simon's latest comedy is a self-conscious farce, with numerous slamming doors and lots of mugging but hollow humour that misses as often as it hits. Christine Baranski leads an ebullient cast in the inevitable but disappointing hit.
Cats (Winter Garden). Still a sell-out, Trevor Nunn's production of T.S. Eliot's children's poetry set to music is visually startling and choreographically feline (239 6262).
A Chorus Line (Shubert). The longest-running musical in the US has not only supported *Joseph Papp's Public Theater* for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions (239 6200).
Les Misérables (Broadway). The magnificent spectacle of Victor Hugo's majestic sweep of history and pathos brings to Broadway lessons in pageantry and drama (239 6200).
Me and My Girl (Marquis). Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters. It has nevertheless proved to be a durable Broadway hit (947 0033).
M. Butterfly(Eugene O'Neill). The surprise Tony winner for 1988 is a somewhat pretentious and obvious meditation on the true story of the French diplomat whose long-time mistress was a male Chinese spy (246 0220).
Phantom of the Opera(Majestic). Stuffed with Maria Bjornson's gilded sets, Phantom rocks with Andrew Lloyd Webber's haunting melodies in this mega-transfer from London (239 6200).

Washington

Into the Woods (Kennedy Center Opera House). Stephen Sondheim and James Lapine update favourite fairy tales with a contemporary plot and characteristically challenging songs. Ends July 16 (254 3770).

Chicago

A Funny Thing Happened on the Way to the Forum (Goodman). Stephen Sondheim's most popular musical, for which he wrote both music and lyrics, stars Louis Di Crescenzo as Pseudolus in Burt Shevelove and Larry Gelbart's adaptation of Plautus. Ends Aug 6.
Driving Miss Daisy (Briar Street). The touching relationship between a dowager, played in this production by Dorothy Loudon, and her black chauffeur exposes the changes in the South over the past several decades (348 4000).
Steel Magnolias (Royal George). Ann Francis and Marcia Rodd play the leads in this view of southern life from under the dryers in a busy hairdressing establishment (988 9000).
Les Misérables (Auditorium). The international spectacle has settled in for a long stay by the Great Lakes (922 2110).

Tokyo

Kabuki. Both the matinee and evening performances at Kabuki-za (541 3131) feature the prodigious Ishikawa Ennosuke, whose barnstorming acting style, spectacular aerial stunts and costume quick-changes have attracted a younger audience to kabuki, but also reflect its roots as a truly popular theatre. At 11am: a mixed programme of four short plays. At 4.30pm: Hitori Tabi 53 Tsuki, a colourful tale of inheritance and vendetta which includes a fight beneath a "real" waterfall (ends July 27). At the National Theatre (265 7411): *Narukami*, noted for its curious mixture of bawdiness and Buddhism (ends 25 July). Both theatres have informative English language programmes and earphone guides in English.
Les Misérables. (Imperial Theatre) Strongly-cast revival (in Japanese) of the stirring musical of the storming of the Paris barricades (201 7777).
The Phantom of the Opera. Nissei Theatre (045 903 5701). This excellent production (in Japanese) is a carbon copy of the London original.

SALEROOM

Top price for Piranesi

Old Master drawings, for years the province of the connoisseur, seem at last to be appealing to a wider market. Christie's morning session yesterday brought in over £1.2m, with just 3 per cent unsold.

The top price was the £264,000 paid by the New York dealer David Tunick for a design by Giovanni Batista Piranesi for a monument in the classical taste. This drawing was part of his riposte in the 1750s to the school of thought that argued that Greek classical art was the superior of Roman. Piranesi aimed to show the scale, richness and elaboration of Roman architecture. Another drawing from the same work went to another New York dealer, Ian Woodner, for £198,000.

A chalk drawing of a reclining youth, which carries the inscription that it is by Pontormo but which Christie's asserts is by one of his 16th century followers, Giovanni Naldini, sold for £198,000 to Peter Weis, who is also a New York dealer. Christie's put a top estimate of £10,000 on it, but Old Master drawings is one of those areas where experts often disagree, and it is now up to Weis to prove to the world that the drawing is by Pontormo rather than by Naldini.

In the sculpture sale a 16th century Venetian gilt bronze figure of Hercules attributed to Francesco da Sant'Agata did well at £93,500, while a French 16th century copper statue of a goddess, attributed to Ponce Jacquiot, made £77,000 in an auction which brought in £663,338, with 25 per cent unsold.

Over at Phillips, a still life of fruit and chestnuts by the 17th century Dutch artist de Heem was bought by the London dealer Johnny Van Haeften for £143,000.

The Sotheby's silver sale totalled £456,192 with just under 15 per cent bought in. The dealer Koopman acquired a George I silver chocolate pot by David Tanqueray of London for £35,200. It bears the arms of the only son and heir of the 3rd Earl of Sandwich. A five piece communion set made by William Pitts in 1786 realised £18,150. It was ordered by James Craufurd, the Governor of Bermuda, for use on that island but never arrived there and remained for over 150 years in the vaults of the bankers Coutts, which accounts for its fine state of preservation.

A Victorian officers' mess cigar stand in the form of a harnessed donkey, fitted with two panniers containing a spirit lamp and a lighter, sold for £16,500 to Heritage, the London dealer. It was made by E & J. Barnard in 1864.

Antony Thorncroft

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Wednesday July 5 1989

Redefining the Exchange

HEART SEARCHING since last November within the newly-constituted International Stock Exchange over its future nature and role produced its first tangible result yesterday with the proposal to hive off settlement into a separately constituted and owned clearing house. It is far more than a technical restructuring. What was once a core activity of the exchange is now to be separated, and the question is whether further surgery in other sections of the market's unwieldy organisation will soon be seen to be appropriate.

Until Big Bang in 1986 the Stock Exchange's priorities were clear. It represented the interests of a relatively small number of firms, and it was motivated to exploit what effectively amounted to a monopoly franchise. That was tempered in practice by public interest considerations, but even so the exchange eventually ran up against the Office of Fair Trading.

Now things are different. Since the implementation of the Financial Services Act, the Exchange's surveillance role has become more specific, but many of its regulatory responsibilities have been passed on to The Securities Association. Meanwhile, the exchange's membership has become broader. And without the ring fence of a commissions cartel, trading attitudes have become much more open and competitive.

High costs

The existing settlement system was in a typical way designed for the benefit of member firms. Although the Stock Exchange has never had the kind of expertise in handling mass financial transactions that has been developed by the commercial banks, it has kept the settlement operation in-house. As a result, firms in the City of London have found that their costs have often exceeded £50 per bargain. This did not matter so much when the market was protected by minimum commissions. But it has become increasingly unsustainable.

Internationally, London has moved out of line both with the more commercially-driven markets of the US, and with the politically controlled French equity market, where electronic settlement was implemented several years ago.

For several years the ISE in London has been struggling to develop versions of its own Taurus paperless settlement system. But it has been accused of unwillingness to consult other interested parties, and of failing to give the project a high enough priority.

Welcome initiative

So the Stock Exchange's latest initiative is logical and welcome. In essence, the plan is that responsibility for settlement will be transferred to a separate clearing house in which it will have no more than a large minority stake. The remaining interest will be spread across 20 or 30 banks, securities firms and institutional investors. The broad spectrum of participation across the securities industry will ensure that all views are represented. This will be important if the new clearing house is to make rapid progress in the international arena.

It is not, however, clear that the Stock Exchange has fully faced the implications of its own proposals. It is saying that its systems staff will be unaffected. But a radical realignment of the exchange's organisation surely lies ahead. For instance, very similar arguments to those applied to settlement could be transferred to the devolution of the exchange's Topic information system. This is a profitable operation, but it was also conceived within the old monopolistic framework, and could be run more efficiently as a separate business — although the ISE will be very reluctant to concede ground in its long-running rivalry with Reuters.

Even the Seaq prices service itself might arguably be a candidate for separation, although Stock Exchange officials will argue strongly that this service remains central to the continuing responsibilities for regulation and surveillance. The core will remain. But exactly what that core should consist of is something that must now be determined by a much wider constituency than the old exchange was used to dealing with.

Co-operation in the Pacific

THE United States is jumping on to the bandwagon for a new Pacific economic initiative just in time to avoid being left out. It must now be careful not to try to grab the reins and overturn the entire project.

In recent years there have been competing ideas about forging some kind of economic framework within the world's fastest-growing trading area. Japan, Malaysia and the US are among the countries that have previously floated one or more ideas; all sank almost without trace.

Then Mr Bob Hawke, the Australian Prime Minister, devised a scheme for an institutional approach to collecting and analysing economic and trading data from the region which neither threatened existing regional political organisations nor gave any one nation a controlling influence. The Bush administration has recently declared a new-found enthusiasm for the idea and Mr Hawke's painstaking diplomacy has secured the agreement of his core group of 10 nations to hold a ministerial meeting this year. It will almost certainly be in Canberra in November when most of the region's economic ministers will be on their way to Wellington for the Pacific Economic Co-operation Conference (PECC) meeting.

Exclusion danger

The core group comprises Australia, New Zealand, Japan, South Korea and the six Asean states — Thailand, Singapore, Philippines, Malaysia, Indonesia and Brunei. Herein lay a problem: the US was exceptionally piqued at not being included — and the effectiveness of any Pacific economic and trading initiative which excluded the US would be severely circumscribed.

However, Mr Hawke was undoubtedly right to leave the US on one side until there was agreement within the core group. Several of its members have long-standing suspicions of the US, which have been exacerbated by Washington's increasing propensity to trade protectionism and retaliation. It was always the intention that the US and Canada would be included.

It is extraordinary that the Pacific nations are so lacking in a formal economic co-ordinating body. The region is awash with institutions — Asean, Anzus, the South Pacific Forum, the South Pacific Nuclear Free Zone and so on — but they are all primarily political or, like the PECC, have no permanent secretariat. Yet the Asia-Pacific region now generates more than one third of world trade. Per capita incomes in some Asian states are up to the level of some of the lower-income European states and rising fast. More than a third of US trade is now within this region.

Common interest

Mr Hawke has referred to his idea as a Pacific-OECD. It is perhaps regrettable that the Paris-based organisation did not earlier take the initiative to admit some of the more developed Asian economies. Apart from Australia and New Zealand, Japan remains the sole Asian member.

None the less, the proposed Pacific organisation would represent something that the OECD cannot, namely, a group of countries which are at very different levels of development, but have a common interest in an open world economy. In this respect, the OECD is not the model and should not be. In another respect, too, the OECD should not be copied, since a smaller bureaucracy would be desirable.

But there is one respect in which the OECD is precisely the right model. The OECD is an organisation for co-operation and mutual discussion. Since the termination of its predecessor, the Organisation for European Economic Co-operation (OEEC), it has not been a trading bloc. Another discriminatory trading bloc is precisely what neither the world nor the Pacific countries need.

On the contrary, one of the most useful roles for the new grouping could be to promote a freeing up of the world trading environment by negotiating the removal of more trade barriers within the area on a non-discriminatory basis. Given that there is no intention of creating a trading bloc, there are also strong arguments for inviting other developing countries to join the grouping, as they turn successfully to more outward-looking policies. Chile and Mexico come immediately to mind.

Hugh Carnegy and **Andrew Gowers** report on progress towards Middle East peace negotiations

Stone by stone, a bridge is begun

It may not yet be the stuff of front-page headlines, but something unusual has been stirring in the Middle East in recent weeks.

Almost imperceptibly, and amid denials from both sides that any such thing is happening, the outlines of an eventual negotiating process between Israel and the Palestinians over the future of the occupied West Bank and Gaza Strip are beginning to emerge. Although the exercise remains in a fragile and embryonic stage and the two sides seem as far apart as ever on issues of substance, the signs are that quickening American mediation is bringing them closer to confronting the critical choices which must precede any breakthrough.

Not surprisingly, neither of the principal protagonists — Israel and the Palestine Liberation Organisation — is finding this a comfortable prospect. Israelis are in political ferment over a plan for elections in the occupied territories that was agreed by the National Unity Government in May, and over attempts by the Bush administration to translate this into a practical step towards a settlement. Palestinians, sceptical about the sincerity of Mr Yitzhak Shamir, the Israeli Prime Minister, are agonising over how much faith they can put in the US as a mediator following its decision to talk to the PLO last December.

Meanwhile, the cycle of violence and repression in the territories that has claimed 534 Palestinian lives and 21 Israeli ones in the last 19 months continues unabated. Although the uprising — or *intifada* — is the wellspring of current tentative peace efforts, everybody is aware that a particularly nasty turn of events could easily end the entire process.

The most intriguing element of the current equation is Israel, where Mr Shamir, a Prime Minister of impeccable hard-line credentials, finds himself under heavy fire from right-wing members of his own Likud Party over the peace plan. The proposals, to be debated at a crucial meeting of Likud's 2,600-member central committee tonight, call for elections in the territories to choose Palestinian representatives for talks on "a transitional period of self-rule" followed by negotiations on "a permanent solution."

Whatever Mr Shamir's personal motives, the plan represents the first detailed peace initiative ever presented by an Israeli Government. That it should have come at all from this Government is remarkable, given the deep divisions between and within the two main components of the coalition — Likud and Labour — over the territories occupied since the Six Day War of 1967.

While the leaders of both parties oppose negotiating with the PLO and allowing a Palestinian state, their approaches to a settlement diverge, with Likud regarding Judea and Samaria (the West Bank) and Gaza as rightful parts of Israel which should never be yielded, and Labour favouring an exchange of "land for peace."

These differences were submerged, but not dissolved, when the coalition endorsed the peace plan in May, mainly because both parties realised something had to be done to retrieve Israel's fast-eroding international position over its suppression of the *intifada*. They decided that it was better to do this together than risk the consequences of breaking up the coalition patched together so painstakingly after last autumn's indecisive elections.

Partly as a result, the peace plan is something of a fudge which omits any mention of such issues as the role in any election of the Palestinian inhabitants of East Jerusalem — regarded by Israel as part of its "indivisible" capital. As such it has left adequate negotiating room with the US, but has also fuelled the suspicions of Mr Shamir's right-wing opponents.

Mr Shamir would not have produced such a peace initiative had it not been for US anxiety about the *intifada*

The "refuseniks" are led by three Likud cabinet ministers and would-be party leaders, Mr Ariel Sharon, Mr David Levy and Mr Yitzhak Moda'i, ministers respectively for trade and industry, housing and economic planning. They will argue at tonight's central committee meeting that the peace plan is a cave-in to the *intifada* that ultimately threatens the security of Israel. They want to force Mr Shamir to accept unequivocally that no peace process can start until the uprising is crushed; that East Jerusalem Arabs be barred from participating in the proposed election; that a Palestinian state be specifically ruled out; and that the Government should commit itself to continued Jewish settlement in the occupied territories — conditions which from a Palestinian perspective would strangle the initiative

The Prime Minister insists that he will not countenance any attempt to alter the peace plan, and he may well win the party showdown. But to pursue the initiative, he and Mr Moshe Arens, the Likud Foreign Minister, are in the awkward position of relying on Labour support — in particular that of Mr Yitzhak Rabin, the Defence Minister and a pivotal member of the coalition. It is a curious echo of events 10 years ago, when Mr Menachem Begin signed the Camp David accords with Egypt and had to rely on Labour support against right-wing opponents including Mr Shamir.

Given the current plan's obvious ambiguities, Mr Shamir's efforts to sell it both to Likud hawks and to his potential Arab interlocutors resemble a precarious and slightly farcical tightrope act. While the Israelis are always quick to accuse the PLO of saying one thing for Western consumption and another for their own people, Mr Shamir has been doing much the same lately.

At home, this involves unabating suppression of the *intifada*; uncompromising statements about not giving up "one inch" of territory; and repeated insistence that progress on the election proposal be linked to moves to extend the Camp David agreement with Egypt, conclusion of formal peace treaties with Israel by other Arab states and an international effort to re-house Palestinian refugees.

In Washington, by contrast, he is out to assure policy-makers of his commitment to the negotiating process, and his willingness to consider any option on the table in talks on a permanent settlement. His Government has also been sending discreet and not-so-discreet messages soliciting support for the election proposals from the Arab world, including the PLO leadership in Tunis.

In recent months, it has allowed a number of leading Palestinians from the occupied territories to travel abroad, where they can talk to the PLO leadership. They include at least two figures explicitly named in Israeli court documents as members of or intermediaries with the PLO.

The irony of the position has not been lost on Israelis; nor has the fact that, however much Mr Shamir pretends to turn a deaf ear, the US is passing messages between him and the PLO. A senior Labour figure said: "We are negotiating with the PLO by proxy. There is no doubt about it."

The Government will not sit down with any Palestinian from outside the territories, nor any from inside known to be a member of the PLO. But its preparedness to acknowledge Palestinians "sympathetic" to the organisation would seem to leave room for some compromise

This is where American mediation comes in. There is little doubt that Mr Shamir would not have produced such a peace initiative when he did had it not been for US anxiety about the *intifada*. Having put it on the table, he may have been disconcerted at the determination with which the Bush Administration — keen to encourage peace moves by the parties themselves rather than seeking to impose any grand design of its own — has picked it up and sought to flesh it out. Ignoring Israeli objections, American officials have been probing the PLO and trying to persuade its leaders to allow Palestinians within the territories to engage in talks with Israel about the election plan.

There was much consternation in

Mr Arafat will consider the proposed elections if they lead to discussion of a permanent settlement

Jerusalem over the recent speech by Mr James Baker, US Secretary of State, calling on Israel to "lay aside the unrealistic vision of a Greater Israel" and recognise Palestinian political rights. The balance was partly restored by a letter to President Bush signed by no less than 94 out of 100 senators urging full US backing for Israel's proposals. But the worry remains that Washington is in a mood to get tough.

Exactly what the Israelis are putting on the table is still clouded by the divisions within the Israeli camp. Israeli officials keep stressing the distance they are prepared to go towards meeting Palestinian demands for self-government. The peace initiative specifies that under interim self-rule Israel would only retain responsibility for "security, foreign affairs and all matters concerning Israeli citizens" in the territories. There is no mention of key issues such as water or land.

Hitherto, the PLO's response has been accordingly cautious. Officials have repeatedly insisted in public that elections should take place under international supervision after an Israeli withdrawal from the territories, as in Namibia. This, say the Americans, is pie in the sky: nobody is going to "deliver" an Israeli withdrawal from the West Bank and Gaza on its own; a territorial deal is unlikely before a prolonged period of confidence-building; and making a precondition of Palestinian statehood is a virtual guarantee that no negotiating process gets off the ground.

But statements from PLO leaders do have a more realistic sub-text. Mr Yassir Arafat, newly named President of the notional state of Palestine, has said he will consider elections so long as he can be sure they are part of an overall process leading automatically to discussion of a permanent settlement, and not merely a device to impose a limited form of autonomy on the inhabitants of the territories.

His perpetual worry is that the Israelis are simply trying to drive a wedge between Palestinians in the occupied territories and those in the diaspora — especially the refugees, without a resolution of whose plight it is hard to conceive of a stable settlement in the Middle East.

Nevertheless, Mr Arafat undoubtedly appreciates that current US diplomacy, though much slower-moving than he would like, presents him with an opportunity which he would be most unwise to squander. He still enjoys solid backing within the PLO — including from the leftist "loyal opposition" based in Damascus — for the peace initiative he launched last November. Arab states, while they will want to be involved in any eventual peace negotiations within the framework of an international conference, do not appear to be raising insuperable obstacles to his diplomacy

Mr Baker's recent statements, and in particular the forthright demand that Israel "forswear annexation" of the territories, give the PLO something substantial to respond to in its dialogue with the US. With careful handling of the theme, Mr Arafat could succeed in focusing attention on a central question: does Mr Shamir's government really accept the idea of a settlement based on UN Security Council resolution 242 and the principle of "land for peace"?

"If the PLO comes up with serious demands, riding on the back of the US position, then it could present Shamir with a serious dilemma," said a senior Labour figure.

That choice would be between pursuing an almost irreversible process with an uncertain outcome, and blocking the whole enterprise. The latter course would precipitate the end of the coalition and bring about either a Labour coalition with the religious parties, or an election in which Likud would risk facing the electors as the party which ditched the chance of peace. It is a choice the Palestinians can force him to make.

OBSERVER

Cashing in on GCHQ

■ Britain is to have its first spy museum — appropriately enough at Cheltenham, close to the Government Communications Headquarters, which as everybody must know by now is the place where British officials pick up signals from all over the world and is part of the basis of the special relationship with the US.

GCHQ has raised no objection to the plan and has accepted an offer to have a look at all exhibits before they go on view.The proposals are due to go the Cheltenham Council for formal approval on Monday.

Peter Rollins, the local tourism officer, says that the idea arose out of research around the country about what people associated with Cheltenham. There was the Ladies' College, the gardens and the Cheltenham Gold Cup. But there was not much else apart from GCHQ, of which there was a surprisingly large awareness. Rollins decided to capitalise on it.

The Museum will be called the Espionage Centre. "Espionage," says Rollins, "is very much part of the British tradition, of the literature and the culture, and that is how tourists will see it." It will be a mixture of fact and fiction, education and entertainment, he explains: James Bond and Kim Philby. There may be an espionage game and a kind of Checkpoint Charlie within the building.

The exhibits will be housed in a former art gallery that went bankrupt, and there will be room for expansion, should there be yet more great British spy stories to come. Initial cost of the project is around £1m, the opening tentatively planned for Easter and the entry fee should not be more than £3.

Rollins is anxious to stress that the Centre is in no way aimed at knocking GCHQ. Cheltenham is very proud of, and indeed very dependent on, the real thing.

Italy does it

■ The Organisation for Economic Cooperation and Development has confirmed what Italy has been claiming for the last two years. "Il Sorpasso" is a fact. It means that Italy has replaced Britain as number five in the ranking of the world's leading industrial countries.

The OECD has done it discretely. But if you look at the tables in the Organisation's half-yearly Economic Outlook, published last week, you will find that Italy repeatedly appears in fifth place and Britain is number six.

OECD officials say that Britain's demotion reflects economic reality. Using 1987 figures for gross domestic product at the exchange rates of two years ago, the OECD has concluded that Italy's economy is bigger than Britain's.

Day off

■ "We'll be out of this tomorrow," said a London taxi-driver speaking of today's transport strike in traffic conditions that were already pretty bad. "Two cab loads of us are going off trout fishing up in Cambridge."

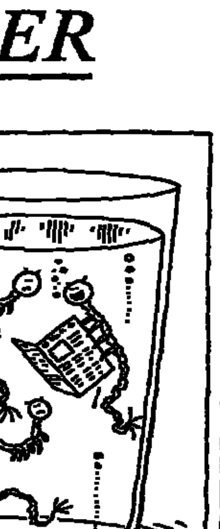
No parasols

■ The return of the hot weather seems to have caught London's bespoke umbrella-makers by surprise: there is a dearth of parasols in the capital.

T Fox & Company on London Wall — makers of the famous Fox Frame umbrellas — said the intricate embroidery featured on traditional parasols made them difficult to manufacture. New Oxford Street's brolly-makers, James Smith & Sons, were also out of stock.

The man at Swaine, Adeney, Brigg & Sons ("Whips & Umbrellas") was slightly more forthcoming: "Yes, we have parasols. But they're rather old, rather ornate, and made from rather rare materials." This was his polite way of saying they were rather expensive: £500 each, with cheaper "sun umbrellas" going for £80.

As for Harrods, the lady in the umbrella department seemed confused. Yes, they had parasols, she explained — but they were mainly for use in the rain.



"79 per cent of midge larvae are in favour of water privatisation."

Whipping power

■ In Pakistan these days the most important qualification to have on one's CV is a prison record. Even better to have suffered a few lashes in the struggle for democracy. This apparently qualifies one to enrol in the Prime Minister's Placement Bureau and land a government job.

Such postings are so much in demand that a prison officer in Karachi has found a novel way to supplement his wage. For a small fee he will arrange to have aspiring government servants photographed in a tiny cell and even lay on a whipping to guarantee employment.

When Benazir Bhutto became Prime Minister in December, she did her best to give as many ex-prisonsers as possible a job and by now has appointed more than 100 ministers and advisers. It is said that there are so many she fails to recognise them. Take the case of Naveed Malik, a former political prisoner but otherwise of no great distinction. He was a little surprised when told he had been made adviser to the Tourism Ministry with the rank of minister, but for six weeks he ruled the roost. It came to a sad end when he met the Prime Minister at a reception. "This is not the Naveed Malik I meant," she said.

Friendly snake

■ Thailand is undergoing a huge political row over who runs the country's electricity industry. Workers are demonstrating, troops are on the alert in case of a national power failure, and rumours are flying in all directions. So when there was a loud bang outside the British Embassy in Bangkok and all the lights went out, it seemed something was up. But it was just another average day in the life of a diplomat. Having slithered up a pole and then attempted to cross from one high tension cable to another, an apparently amorous snake had created a spectacular short-circuit.

Fair warning

■ Sign in a West Midlands shop window: "Shoes made in our own workshop. Nothing like leather."

مكرر من الاصل

Terry Dodsworth analyses the latest moves in the long-drawn-out GEC/Siemens bid for Plessey

An exhausting endgame is almost ended

The denouement in the long-running bid battle for Plessey promises to be just as extraordinary as the drama that has preceded it.

Already the contest has had virtually everything that a connoisseur of takeover plots could wish for — the battle of wills between Lord Weinstock, the General Electric Company's managing director, and Sir John Clark, Plessey's chairman; the complexities of a pioneering Euro-bid, linking GEC with Siemens of West Germany; Plessey's daring attempt at a counter-offer; GEC's decision to seek safety in a clutch of joint ventures; court-room battles; monopolies hearings in both London and Brussels; and eight weeks of secret negotiations with the Ministry of Defence.

Yet after this series of turns and counter-turns, some eight gruelling months since the takeover offer was launched last November, GEC and Siemens are now talking of a complete change of course. The bid, they say, may be dropped because of difficulties in reaching agreement on the Government's terms for launching the takeover. Instead, they might buy Plessey's 50 per cent stake in GPT, the telecommunications equipment company it owns jointly with GEC.

Rationalisation will thus be allowed to proceed in the telecommunications area, where GPT will be linked into a pan-European group with Siemens; and Plessey will be allowed to escape, free to develop its defence and other interests.

But what does this change of tactics mean? It is a measure of the wariness with which Lord Weinstock is treated in the City that the peace talks have not been taken entirely at face value. Plessey's share price, it is true, has fallen sharply as many investors concluded that there might not be a bid and took their profits.

But there is a widely-held view that the discussions are a smokescreen — an attempt to undermine the Plessey share price, as one analyst put it, before launching a dawn raid. "Weinstock always hedges his bets," said another. "He's a racing man who knows all about gambling — and these talks are a guarantee against failure to reach an agreement with the Government on the takeover."

The City guessing game revolves around two main issues:

● Under the qualified approval of the bid given by the Monopolies and Mergers Commission, the Ministry of Defence has been given the role of negotiating undertakings with the bidders that will safeguard competition and protect British military secrets. The MoD has been trying to preserve as much domestic competition in this field as possible in recent years, and it is determined to build a secure ring fence around British military secrets to prevent them leaking into West German hands. There is probably nothing the MoD would like better than for GEC and Siemens to pull out, leaving the way open for the creation of two competing defence industry "pillars", strong enough to conduct essential research and form viable alliances overseas. Plessey, with the proceeds of the GPT sale, extensive interests in the US, and a new management team moving in at the top, might be an ideal base for this second competitive "pillar".

● The second issue concerns Lord Weinstock's management style. After two decades at the top of GEC, he is still at the centre of all the company's strategic moves. He runs the company through a devolved management structure but keeps a tight grip on the big decisions. As the history of the Plessey bid battle has shown, he is capable of great flexibility in pursuit of a single objective.

Lord Weinstock is also capable of displaying a curiously detached attitude to the activities of his subordinates, talking about them almost as if they were independent operators. This sort of detachment, combined with his ability to influence the press and City opinion-makers, leads analysts to ask more questions about GEC's manoeuvres than they might at other companies. "Weinstock is always looking for options," says a City executive who knows him well. "He never goes down a single track either within the company or outside — and that's what's happening in these talks at Plessey."

So how do the options balance out in the current state of the takeover battle?

The first possibility is that the GEC/Siemens consortium is still keen to press ahead with the takeover. On this theory, it expects soon to reach a satisfactory conclusion with the MoD, in the belief that the Ministry will eventually have to come up with justifiable proposals. The deal could then go ahead roughly as planned — but it would be based on a GEC/Siemens price perhaps 20p lower than it might have been before the talks on GPT. Alternatively, if the eventual agreement with the MoD turned out to tie the partners in too much red tape on competition and security issues, the GPT agreement would allow them to rescue something from the saga.

The second possibility is that the bidders' interest has shifted away from a complete takeover towards a more limited acquisition of GPT. This would give the consortium partners half the cake they were after, and should appeal particularly to Siemens, which would probably acquire about 40 per cent of GPT to further its European telecommunications ambitions. This option has gained in plausibility. A few weeks ago, it looked to GEC-watchers as though the company needed Plessey's order book to maintain its growth in defence. Since then, however, GEC has reported a 12 per cent jump in defence profits; and GPT has demonstrated its attractions by putting in a surprisingly buoyant performance.

Again, however, there is the question of price. Plessey is believed to value its half-share in GPT (about 35 per cent of the group's turnover) at between £750m and £800m, as against a price of about £1.9bn which GEC/Siemens put on the whole Plessey group when they last bought shares in the market. These figures seem to provide the basis for a deal. But Lord Weinstock is a notoriously hard bargainer. So is his main reason for continuing with the MoD talks just an attempt to use the continuing takeover threat to bounce Plessey into a more favourable price for GPT?

Plessey executives are well aware of the dangers. They will want to avoid the charge that they are selling GPT too cheap, or allowing GEC and Siemens to undermine the Plessey share price in preparation for a renewed bid.

Attacks on Plessey's strategy are already beginning to fly around the City. Some institutions are complaining that the Plessey management is thinking of itself rather than shareholders. Many would probably prefer a bid — preferably well over the 260p level.

These investors are clearly thinking about exit prices rather than what is best for national defence, or the ability of Plessey's new management team, or the prospects for growth in the company's new information systems businesses. Whether they will be able to make a decision on these issues may well be clear later this week or next.

"My belief is that all the papers for either transaction will be ready this week, so that Weinstock will be able to make a decision on them in the next few days," says an analyst yesterday. "This end-game is almost ended."

December 1985
Plessey rejects £1.2bn bid from GEC.

January 1986
Bid referred to Monopolies Commission, which recommends in July that it be blocked.

November 1988
GEC/Siemens joint company launches £1.7bn bid for Plessey.

January 1989
Lazard Brothers, Plessey's merchant bank, tries unsuccessfully to put together a takeover offer for GEC. Bid for Plessey referred to Monopolies Commission. European Commission also announces probe. Siemens and GEC raise their stake to nearly 15 per cent.

February 1989
GEC and Siemens revise structure of bid.

April 1989
European Commission gives provisional clearance to takeover of Plessey, followed two days later by the Monopolies Commission. GEC/Siemens begins negotiations with the Ministry of Defence on security and competition undertakings.

May 1989
Plessey offers to buy or sell its 50% share in the GPT telecommunications company to GEC.

July 1989
GEC/Siemens opens talks with Plessey over a deal on GPT.

Summit priorities

Redirecting exchange rate strategy

By Martin Feldstein

Next week's summit meeting provides an opportunity to correct the official foreign exchange *strategy that for the past two* years has been driving real exchange rates in the wrong direction. Because participants in foreign exchange markets are sensitive to what they perceive to be the goals of government policy, what the national leaders say in the summit communiqué can matter more than exchange market intervention or small shifts in interest rates.

The right message for the communiqué is that future movements of the dollar and other currencies must help to eliminate major trade imbalances. The key words should be "trade adjustment" and not "currency stability."

The emphasis in official pronouncements on exchange rates has been on stability ever since the February 1987 meeting at the Louvre where finance ministers promised that, despite the US trade deficit, governments would resist market forces that would otherwise lower the value of the dollar. Central banks would *intervene to prevent sudden* sharp exchange rate movements that could be characterised as a disorderly market.

At first, foreign exchange *markets* were sceptical. But after nearly $100bn of intervention in 1987 and a concurrent sharp rise in US interest rates, financial investors came to believe that the governments would achieve their goal of preventing a dollar decline. Yet the promise to prevent a decline caused it to rise. And although the dollar's recent surge above the assumed top of the range has raised doubts about the goal of stability and the ability of governments to achieve it, the original fear of a dollar decline has been more than offset by a speculative urge to ride its upward trend.

The recent actions of the central banks are ambiguous indicators of the current goal of government policy. The substantial selling of dollars and the shifts in interest rates in Japan, the US and Germany are consistent with allowing the dollar to decline to a level that achieves trade balance. But these actions can be interpreted as evidence that the governments merely want to stop the dollar from rising as rapidly as it has recently. Only *a clear statement at the summit* can help financial markets to understand where the governments stand.

A renewed promise of exchange *rate stability* would definitely be the wrong message. Stability of the dollar at the current level would mean a widening US trade deficit and *ballooning trade surpluses for* Japan and Germany. But the promise of exchange rate stability is even worse than that. By promising that the dollar would remain in a relatively narrow band and that sharp short-term movements would be prevented, the official rhetoric has caused its real value to rise since early in 1988 and to surge in recent months.

The promise of stability made the dollar's rise an inevitable consequence of the higher US interest rates. Market interest rates in the US exceed those in Japan and Germany because the US inflation rate is higher. The higher US inflation would normally be *expected to cause the nominal* value of the dollar to fall gradually to maintain the dollar's real value and thus the competitiveness of US products. If *the dollar did decline in this* way, the fall would just offset the interest rate advantage, leaving a Japanese or German investor no better off with dollar bonds than with bonds of his own country. But with the official promise that it would not fall, the higher US interest rates have attracted funds to dollar investments and that has caused the dollar to rise.

In recent weeks, this investor-induced rise in the dollar has attracted an influx of speculators who are betting that the upward momentum will continue. Even among those speculators who believe that the dollar's rise is unsustainable, many continue to buy dollars. They are convinced that they can make profits while the dollar rises and then escape from their positions when it begins to fall because the central banks will do whatever is necessary to prevent a sharp "disorderly" decline of the dollar. The official emphasis on stability thus contributed not only to the generally upward trend of the dollar over the past 18 months but also to its speculative surge.

Even if the stability of nominal exchange rates could somehow be achieved, it would not be an appropriate goal in a world in which national inflation rates differ. In the 28 months since the Louvre meeting, the cumulative rise in the producer price level for US *manufactured products* has exceeded the corresponding rise in Japanese prices by more than 12 per cent. It would therefore have taken a 12 per cent decline of the dollar relative to the yen over these 28 months just to maintain the relative price competitiveness of US and Japanese products at their February 1987 level. Without that decline, US firms have become increasingly less competitive in world markets.

Experts disagree about just how much of a dollar decline is needed *to eliminate the US* trade balance or to shrink the current account deficit to a sustainable level. My judgment is that the real value of the *dollar must decline at least* 20 to 25 per cent relative to the yen and the D-mark.

But it is not for the summit communiqué or the central banks to say what the appropriate exchange rates should be. Rather, they should make clear that they accept two principles: trade adjustment and no risk-free ride for speculators. Exchange rates should be allowed to shift over time in response to market pressures to facilitate trade adjustment. And speculators should not be protected against sharp temporary currency moves.

A clear statement of principles that emphasises trade adjustment and abandons dollar stability would help to move market sentiment and therefore the dollar in the right direction. Without such a redirection of the dollar, the pious hopes of preserving and strengthening free trade will be lost in the wake of a surging US trade deficit.

The author is president of the National Bureau of Economic Research, in Cambridge, Massachusetts.

LETTERS

Confidence-building measures for Hong Kong

From Mr Terence Ng.

Sir, I write in my capacity as chairman of the Hong Kong Association in expressing a view on the matter of the right of abode. This association is a local branch of the Institute of Chartered Secretaries and Administrators in the United Kingdom. We have a membership in Hong Kong of 1,900 professional and 3,600 student members.

Since the Prime Minister's visit to China in September 1982, when the future of Hong Kong was discussed, nearly 200,000 Hong Kong people have emigrated. Of these, a very high proportion was employed in professional and management roles. The continuous brain drain, and disruptive effect on the economy and stability of Hong Kong society, is self-evident.

The recent events in the Peoples' Republic of China have had a profound effect on the local population, resulting in an almost complete loss of confidence in the Joint Declaration and the future of Hong Kong after 1997.

I cannot see how the Government of the UK can achieve the object of maintaining and preserving, not to speak of promoting, the economic prosperity and social stability of Hong Kong as it has undertaken to do in the Joint Declaration, unless the confidence of the Hong Kong people can be restored immediately.

Granting of the right of abode, giving assurance of a home of last resort to the 3.25m Hong Kong British subjects, should have a significant effect of restoring public confidence in Hong Kong. Otherwise there will be little hope that China will honour "one country, two systems," which is the essence of the Joint Declaration. It is therefore essential to restore the right of abode in Britain if the UK Government is determined to honour its undertaking in the Joint Declaration.

I fully support the views of the executive and legislative councillors of Hong Kong, represented by their senior members, Dame Lydia Dunn and the Honourable Mr Allen Lee, that Britain need have no fear of a mass migration of Hong Kong people to its shores.

Britain's granting of the right of abode is a catalyst for restoring confidence, as well as a fulfilment of its moral obligations to its nationals in Hong Kong.

Terence Ng,
Chairman, The Association of The Institute of Chartered Secretaries & Administrators in Hong Kong,
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160-174 Lockhart Road,
Wanchai, Hong Kong.

TV research should continue

From Ms Sarah Thane.

Sir, Mr John Beishon of the Consumer's Association (Letters, June 27) questions the future of research into the performance of television companies, and viewers' attitudes and preferences, "following the projected demise of the Independent Broadcasting Authority's research department."

A number of current functions of the IBA will not be applicable to the new Independent Television Commission. However, a research capability will be essential for the ITC in order to review licensees' performance effectively, and to inform decisions about the regulation of the wide range of terrestial, cable and satellite television services which will be available to UK viewers.

Exact decisions about which IBA staff or departments transfer into the ITC is still some way off, but the continuing importance of research in the new regulatory environment should be underscored.

Sarah Thane,
IBA,
70 Brompton Road, SW3

'Clocks were made for man'

From Mr T.H. Stewart.

Sir, I cannot understand this hoo-hah about GMT, BST, and Double Summer Time. Surely clocks were made for man, not man for clocks? If it does not get light till 10.30am in Skye in winter, why not open school at 11am?

Cows will get up when it suits them; there is no law of nature which insists that they be milked at (say) 7am. Indeed, why do the inhabitants of the Shetlands and the Orkneys not follow the habit of the Himalayan black bear (as reported on the BBC), and spend the winter in bed?

I must admit that, as a retired man myself, I can easily follow the example of the Himalayan black bear. Those who still have to "work from 10 till very nearly four/ for half the year or even more,/ with but an hour or two to spend/ at luncheon with a City friend" will find this more difficult.

Harvey Stewart,
Les Pecines,
Rousillon,
71550 Anost,
France.

Nothing to do with reason

From Mr Dennis Woodman.

Sir, Michael Prowse is a little unfair on the recent white paper on the reform of charity legislation (Lombard column, June 29). He notes that the finest legal minds have been unable to discover the common philosophy that runs through the Sermon on the Mount, Christian charity and the British Hedgehog Society.

In a single paragraph the white paper uses the words: "Not always tidy . . . sometimes confusing even to experts . . . rationale not always apparent . . . degree of uncertainty . . complex . . tangled . . illogical" to describe the status of charity in English law.

It cannot be said that the authors are unaware of Michael Prowse's mockery, and the white paper invites further discussion on the orderly development of charity status. Given the ragbag Michael Prowse lists inside the charitable net, he should have mentioned the philanthropic organisations, like Amnesty International, which fall outside.

Notwithstanding Justice Slade's definitive judgment on political activities in the Amnesty International case *(McGovern v AG,1981)* and the discussions by the charity commissioners in their annual reports (and by other worthies elsewhere), the white paper recognises the continuing anxiety about what constitutes a political activity, and devotes an essay to the subject. Slade rested his case largely on the dictum of *Lord Parker (Bowman v Secular Society Ltd 1917)*: "a trust for the attainment of political purposes has always been held invalid . . . because the Court has no means of judging as a matter of evidence whether (the change in administration) would be for the public benefit after all the possible consequences, local and international, had been taken into account."

In Slade's highly revealing conclusion, rejecting Amnesty International's application for charitable status, he states:

"Indisputably, laws themselves . . . will be administered by government authorities in a manner which many reasonable persons consider unjust, inhuman or degrading."

From which Michael Prowse can deduce that the administration of charity law has nothing to do with the opinions of *reasonable* men; we are *left* with the tasteless position that squashed hedgehogs are a suitable object of charity in the sight of the law — but *squashed Chinamen* are not.

Dennis Woodman,
Oriental Textiles,
82 Sea Road,
Milford-on-Sea, Hampshire

Emu in Ecu could mean write-off

From Mr Stewart Vaughan.

Sir, European monetary union (Emu) seems to have a more profound meaning for the French than even Mrs Thatcher fears.

French minister Mr Lionel Stoleru, interviewed in today's Figaro ("Le grand gagnant, c'est l'épargnant," June 29), states:

"If we succeed in establishing monetary union in Europe, payments will be made in a common currency, in Ecus (European currency units). The Franco-German deficit will then have as much importance as that between Languedoc and Lorraine, that is to say, none."

Stewart Vaughan,
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France.

FINANCIAL TIMES
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Support for pound causes record fall in UK reserves

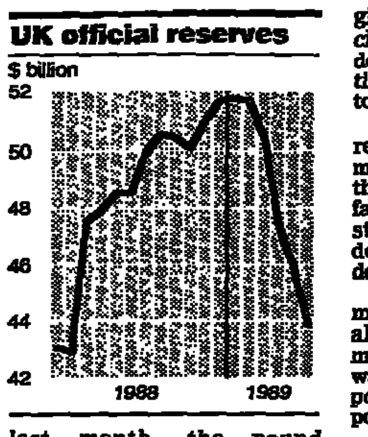
By Simon Holberton in London

OFFICIAL INTERVENTION to support the pound last month caused a record $2.24bn fall in Britain's reserves of gold and foreign exchange in June, according to Treasury figures released yesterday.

The sharpness of the fall underlined selling pressures on the pound last month, but these might be abating.

Last month's decline in reserves surpassed the previous biggest fall of $2.11bn in April 1978 when sterling weakness was caused by poor trade figures and money supply growth overshooting its target.

Analysts had expected underlying reserves to fall by about $1bn in June after May's fall of $739m. However, in spite of the much larger figure for last month, the pound strengthened in European currency trading, and equity and gilt-edged prices rose. Financial markets saw the official defence of sterling as indicative of the Government's desire to support the currency.



The Treasury, which usually refuses to comment on official market operations, reinforced this view when it said: "The fall in reserves clearly demonstrates the Government's determination to resist the depreciation of the pound."

It said the Government had made it plain that it would use all the appropriate instruments, of which intervention was one, in the pursuit of its policy of not allowing the pound to be devalued.

Mr Peter Spencer, UK economist at Shearson Lehman Hutton, the US securities house, said: "The Treasury effectively deployed its interest rate weapon in May [when base rates were raised to 14 per cent] and showed that it meant business in June."

News of the fall in reserves came amid signs that the pound's fortunes might be improving. On the Bank's trade-weighted sterling index, which measures the currency against the UK's main trading partners, the pound yesterday rose 0.4 to 91.2.

Analysts noted that there had been a firmer tone to the pound over the past week, despite last Thursday's rise in West German and continental interest rates. There was a growing feeling that the Government would be able to hold current interest rates.

Particularly encouraging for the pound is the expectation that the Federal Reserve, the US central bank, might move to lower US interest rates further this week.

In London, the pound closed at DM3.0500 compared with DM3.0425 on Monday and at $1.5875 compared with $1.5775. New York markets were closed for the July 4 holiday.

At the end of June the UK's total foreign currency and gold reserves were valued at $43.7bn compared with $46.1bn in May. The fall in total reserves was $185m greater than the fall in underlying reserves and reflects repayments of public sector authority foreign debt.

Money markets, Page 38

Japan reaps anti-nuclear fall-out

Robert Thomson in Tokyo analyses the growing polarisation of opinion on N-power in the run-up to the coming national elections

FOR obvious historical reasons, the Japanese are sensitive about nuclear matters. Now, after a strangely delayed reaction, opposition to nuclear power plants is being translated into political strength formidable enough to be a serious threat at coming national elections already clouded by the Recruit financial scandal.

The anti-nuclear momentum has prompted two government agencies linked to the industry to increase advertising budgets this year by 10 and six times, and nervous politicians have been forced to address an anti-nuclear campaign which has welded fact, speculation, nationalism and fear.

That campaign has successfully stirred deep Japanese concerns about food purity by raising doubts about potential contamination of imported foods.

"Japanese farmers are forced by the authorities to reduce acres of farmland and pour milk down the drain... while contaminated dairy products are continually being imported to Japan through big trading firms," wrote Mrs Taeko Kansha, a housewife turned activist whose slim volume on the subject, Is It Too Late?, has been a strong seller and influential among women who fear their children's health is at risk.

The country's 37 nuclear plants comprise about 18 per cent of generating capacity and are run by nine regional power companies which are intensifying campaigns portraying nuclear energy as essential and safe. Meanwhile the State Science and Technology Agency has increased 10-fold its allocation for nuclear power publicity.

Mr Takashi Kikura, director of the Nuclear Public Acceptance Division of Hokuriku Electric Power, has been organising seminars in its nuclear patch, which runs along the west coast of the main island of Honshu. He explained that the contaminated food issue initially stirred popular fears: "The target for our public relations programme are the housewife and the younger generation. Right now we are trying many different things."

The Science and Technology Agency is planning to train prominent members of local communities to spread the pro-nuclear word informally to counteract strong word-of-mouth activism among ordinary Japanese.

The Federation of Electric Power Companies is aiming to make every one of the 140,000 workers in the industry a pro-nuclear spokesman and to make clear that electricity will be far more expensive if the country's nuclear plants are closed.

There was an oddly delayed reaction in Japan to the Chernobyl accident in the Soviet Union three years ago. The anti-nuclear movement gathered strength early last year after publication of several best-selling books which gave frightening accounts of nuclear accidents and convinced many that nuclear power was not worth the risk in densely-populated Japan.

Several cases of equipment failures and shutdowns at the country's plants contributed to unease, as did a growing sense that the government and an obedient media were not revealing all about problems.

Disillusionment with the ruling Liberal Democratic Party over the long-running Recruit financial scandal has also not inspired popular confidence in the electorate in the official version of the truth.

Supporters and opponents of nuclear power cite a recent poll conducted by the Japan Broadcasting Corporation as evidence on the nation's nuclear mood. Some 76 per cent of respondents said they were either "interested in" or "interested in and sympathetic to" the anti-nuclear campaign. However, 53 per cent said the nuclear programme should be "pursued with caution" and 7 per cent said that it should be "positively pursued."

Electricity industry officials plan to increase the number of plants to 86 by the year 2010, and the Ministry of International Trade and Industry, which controls electricity prices, would like nuclear power to provide as much as 49 per cent of needed power by then. A sensitive problem is where to put the new power stations.

Plans for a plant on the Noto Peninsula were the central issue of a recent mayoral election in Suzu City. The election became a virtual referendum and although the incumbent mayor, who supports the project, was returned, his vote was topped by the combined total of two anti-nuclear candidates.

Other mayors in the region are appropriately anxious. A Socialist Party official, Yasuji Shimizu, said the nuclear movement's influence had made it possible for the party to win elections in traditionally conservative towns.

The highlighting of allegedly contaminated food imports from Europe has not affected the level of imports, according to an EC official here, but food from Europe is still checked for excessive radiation resulting from the Chernobyl accident.

The EC official said that traces above the Japanese limit had initially been found in some shipments of game, field mushrooms and herbs, but the problem for food exporters now is the delays caused by continuing and time-consuming checks by Japanese officials.

The Citizens' Nuclear Information Centre, which co-ordinates the flow of information among the various Japanese opposition groups, regularly distributes lists of products said to be contaminated.

Jinzaburo Takagi, director of the centre, said that about 70 per cent of anti-nuclear activists are women, and most of those are housewives with young children. He said that Japanese male workers are "too closely connected with their companies" to get involved.

An editor at a Tokyo entertainment magazine said she had become interested in the movement after the birth of her son two years ago. She has stopped buying cheese from Europe, preferring New Zealand or Australian brands, and firmly believes in an official conspiracy of silence. Yet, many Japanese believe that the country, lacking in natural resources, has no choice but to develop nuclear power.

Riot police remove demonstrators during a protest outside the Tomari nuclear power plant in northern Japan late last year

London SE in joint clearing house plan

By David Lascelles in London

THE LONDON Stock Exchange yesterday invited users of the securities market to become joint owners of a new clearing house which will handle settlement services for dealers and investors.

The initiative is a major concession by the exchange to secure agreement on a new paperless trading system which it needs to compete in the evolving international securities markets. Market users have objected to settlement services being owned and managed by the exchange itself, and disagreements have delayed plans to introduce a modern electronic settlement system called Taurus.

Mr Andrew Hugh Smith, stock exchange chairman, said: "I am confident that these proposals will help achieve the full co-operation and active participation by all those involved in securities processing and settlement in London."

He said it was vital for the London exchange to reduce the costs and risks of the present paper system so that it could meet the challenge of competing markets abroad.

The initiative received a broad welcome in the City of London last night, although people said it was complex and needed careful assessment. One banker commented: "This is a major step if the exchange is talking about ownership and control."

The Bank of England, which has been pressing the exchange to implement all-electronic share registration, is also understood to be in favour of the new plan.

Under the proposal, a new clearing house would be set up with the stock exchange holding a large, though minority, interest put by Mr Hugh Smith at around 40 per cent. The other shareholders would be the large clearing banks, the custodian banks, the securities houses, institutional investors and possibly large listed companies.

He declined to say precisely who would join in, but initial soundings had produced a very positive response, he said. He hoped it would be constituted by the end of March next year. However, he stressed that the proposal was still only in outline. "We are at the outset of a complicated period of discussion," he said.

Because of the complexities of the settlement mechanisms, Taurus cannot be separated from Talisman, the exchange's 10-year-old central settlement system for members. So it will remain with the exchange. But the exchange will sell the services of both Talisman and Taurus to the new clearing house for a fee. The clearing house will consist of a board of directors, and a small staff responsible for management, marketing and finance. "We shall be transferring the business, but not the assets behind it or the staff," Mr Hugh Smith said.

The aim behind the proposal is to involve market users more directly in the development of settlement systems. At the moment, they can only influence the shape of Taurus through their membership of a steering committee, Siscot, where consensus has been hard to achieve. The determination of the stock exchange, until now, to preserve control of settlement was also seen as a sign of its clubbish character.

The exchange has so far spent about £6.5m ($10.3m) on Taurus, which is due to be phased in starting in the latter part of next year. The total budget is £19-£20m. Mr Hugh Smith said this would have to be recouped by the exchange through fees charged to the new clearing house.

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THE LEX COLUMN

A rather British compromise

After a decade of fitful debate, it will be hard to convince the outside world that the Stock Exchange has found the philosopher's stone for creating a brave new world of paperless settlement. The Hugh Smith plan for a jointly-owned central clearing house has some parallels abroad. But there was something very diffident and British about the way the Exchange issued yesterday its welcome but still rather vague invitation to outsiders to join its settlement club.

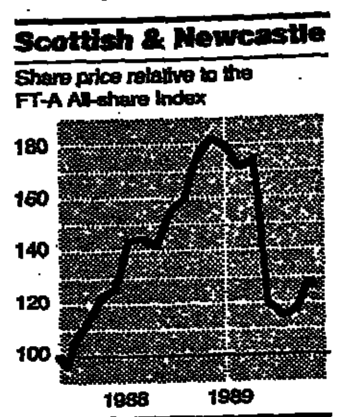
In other financial centres, dirigiste pressure has been required to prevent rival interest groups frustrating progress. The Bank of Italy is a large shareholder in Milan's widely praised Monte Titoli central depository system; yet while the Bank of England was consulted on the Hugh Smith plan, it shows no great eagerness to stump up money like its Roman counterpart.

It may be that enlightened self-interest will suffice to ensure support for the Hugh Smith scheme. Given that perhaps 80 per cent of the cost of central Stock Exchange services are borne by a few large firms, such as Kleinwort Benson or BZW, it comes as no surprise that they favour something which would dilute their share of the bill. The fact that BZW's parent bank is buying Hill Samuel's share registry business suggests the clearing banks feel they too have little to fear.

But opening up the ownership of the clearing system to outsiders may be a side issue. The interests of small private shareholders must be protected; but it is not immediately obvious that a body dominated by large financial institutions will do so. And listed companies simply want to be sure that they can easily communicate with — and identify — shareholders; it is hard to imagine BP or BTR seeing the purchase of shares in the new clearing house as worthwhile.

S & N

In one sense, Scottish & Newcastle's latest shift in strategy cannot be faulted. The previous plan was to expand further into hotels, regional brewing or leisure, all rather expensive areas for a company on S & N's modest multiple. But if the hotels can fetch anything like the suggested £700m, the funds are suddenly there for everything else; and since the switch from hotels to holiday villages would be from low-yielding to higher-yielding forms of accommodation, earnings would be pushed up in the meantime.



It follows that anyone who wants to go for S & N needs to get a move on. A sale price of £700m for the hotels would leave the UK's second biggest free trade brewer valued at not much over £500m, on a historic multiple of 7.5. It is a risk which S & N must be keenly aware of; and it would not be surprising to hear of it pushing on with the other part of its strategy, the picking up of new brewing capacity. It remains to be seen whether it will emerge as the new owner of Watney, but the aim is also to get hold of capacity in Continental Europe.

Elders' need to get rid of its 23.5 per cent stake means that a bid cannot be ruled out with confidence. But if none arrives, S & N will be a particularly tricky stock to value on fundamental grounds, as it goes through its own period of transition in a chaotically changing industry. It will still, after all, be much more a brewer than anything else. It is getting to the stage where some clarification from Lord Young is urgently needed.

Sterling

It is a measure of the recent improvement in sentiment towards sterling that the financial markets responded so positively to last month's record $2.2bn drop in the UK's foreign exchange reserves. The optimistic view, which is not surprisingly being encouraged by the authorities, is that they are intent on maintaining a firm exchange rate, which explains why the figure was almost twice as bad as expected.

The alternative and more gloomy interpretation is that sterling came under even more pressure than realised last month. Despite the expenditure of almost 5 per cent of the country's foreign exchange reserves, sterling fell by 2¼ per cent in June; and had it not been for the end-month weakness in the dollar, the UK exchange rate would probably have been under even more pressure.

It is far from clear whether the recent recovery in sterling is a mere technical correction or something more substantial. There has only been a modest improvement against the D-Mark, and while this may be partly explained by last week's rise in West German interest rates, the next batch of UK trade and inflation figures will give a far better clue to sterling's medium-term fortunes than yesterday's reserve figures.

In the meantime, the outcome of today's Federal Open Market Committee meeting and Friday's US employment data will be monitored even more closely than usual. The collapse of the International Coffee Agreement is the latest evidence of the softening in commodity prices, and any suggestion that the Fed's monetary emphasis is now determined by increased concerns about recession, rather than inflation, is bound to be interpreted bullishly by the equity markets, if not the bond markets.

3i

Should the capital-hungry UK clearing banks finally take their profits on one of their most successful investments? Yesterday's annual results from 3i, Britain's biggest venture capital group, suggest that the time is probably ripe. A 42 per cent rise in 1989 pre-tax revenues, to £65.8m, a compound growth in net assets per share of 23 per cent over the last five year and a post-tax return on shareholders' funds of 24.4 per cent is far superior to anything the clearing banks can deliver.

The group is now self-financing — the last cash call was in 1975 — and the banks' equity investment has grown more than ten fold to £1.2bn. However, there are signs that 3i's commanding position in certain parts of the market is coming under pressure and the returns over the next decade may not match those of the last decade. If it were to turn itself into an investment trust, 3i would be an attractive stock market vehicle and it would be far easier for any bank to bail out. The only reason for retaining a stake is political. It could be proof for a hostile Government that the banks are good long-term investors.

Toyota's European plans

Continued from Page 1

at its Hanover plant of a Toyota vehicle for sale in European markets under both Toyota and VW badges.

Toyota's confirmation of its plans to site the car engine plant in the UK gives Britain a virtual clean sweep of the first wave of major Japanese automotive projects in Europe.

Nissan, the second-largest Japanese vehicle maker, has already begun production at its £610m car plant at Sunderland in north-east England, where output will reach 200,000 cars a year in 1992-93.

Honda, Japan's number three car maker, begins commercial production of engines in August at its new plant at Swindon, where it has already indicated that it also plans to begin car assembly.

Honda already has a joint production agreement with Rover Group, which will be producing 30,000 to 40,000 Honda Concerto cars a year at its Longbridge assembly plant. Japanese designed light commercial vehicles are also produced at Luton

Toyota said construction of the car engine plant would begin in summer 1990 on a 130-acre site in the Deeside Industrial Park at Shotton, in the county of Clwyd, North Wales.

In the first stage, it will produce a range of 1.6 to 1.8 litre engines with a capacity of 100,000 a year, rising to 200,000 a year in the second half of the 1990s.

Austria seeks EC entry

Continued from Page 1

believes Vienna would find it hard to square its neutral commitments with the aspirations of political union of most EC member states and with the increasingly close foreign policy co-ordination among the 12 members.

Several EC governments, such as France and Britain, appear to share some of Mr Delors' reservations. West German diplomats stressed yesterday the "all or nothing" nature of EC membership.

It was partly to try to head off the Austrian application that Mr Delors launched his bid in January to find a new form of co-operation with Austria and its five fellow members of the European Free Trade Association (Efta).

Austrian diplomats in Brussels stressed that the application did not diminish Austria's interest in seeing the wider EC-Efta negotiations succeed.

Reservations about Austria's EC membership are not confined to Community institutions. Mr Manfred Woerner, secretary general of the Brussels-based Nato secretariat, said in a recent speech that the Atlantic Alliance was needed "to protect the emergence of a Western European identity," an identity which, in security terms, might be blurred if neutral Austria joined the EC club.

Ireland's neutrality, which is not couched in East-West terms, has never raised the same problems, even though all other members of the EC belong to Nato.

WORLD WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	25	77	Dubrovnik	S	26	79	Malta	S	28	82	Rhodes	S	28	82
Algiers	S	33	91	Edinburgh	S	23	73	Manchester	S	21	70	Rio de J'o		–	–
Amsterdam	S	22	72	Faro	F	23	73	Manila	C	33	91	Rome	F	25	77
Athens	S	29	84	Florence	C	18	64	Melbourne	F	11	52	Salzburg	F	25	77
Bahrain	S	38	100	Frankfurt	C	21	70	Mexico City		–	–	San Francisco	C	13	55
Bangkok	F	35	95	Funchal	C	24	75	Miami	R	30	86	Seoul	C	26	79
Barcelona	F	27	81	Geneva	F	22	72	Milan	R	18	64	Singapore	F	29	84
Beirut		–	–	Gibraltar	F	25	77	Montreal	F	21	70	Stockholm	S	28	82
Belfast	S	22	72	Glasgow	S	23	73	Moscow	C	19	66	Strasbourg		–	–
Belgrade	S	29	84	Guernsey	S	18	64	Munich	F	21	70	Sydney	S	16	61
Berlin	S	24	75	Helsinki	S	27	81	Nairobi	C	17	63	Taipei	C	36	97
Biarritz	S	26	79	H. Kong	F	31	88	Naples	F	28	82	Tangier	F	24	75
Bombay	F	30	86	Innsbruck	F	17	63	Nassau	R	31	87	Tel Aviv	S	28	82
Bordeaux		–	–	Inverness	S	24	75	New Delhi	S	35	95	Tenerife	F	26	79
Brussels	F	21	70	Islamabad	F	34	94	New York	C	19	66	Tokyo	C	23	73
Budapest	F	29	84	Istanbul	F	26	79	Nice		–	–	Toronto	S	22	72
B. Aires	F	10	50	Jakarta	C	32	90	Nicosia	S	26	79	Tunis	S	28	82
Cairo	S	33	91	Jersey	S	23	73	Oporto	C	20	68	Valencia	F	28	82
Cape Town		–	–	Jo'burg	F	16	61	Oslo	F	24	75	Venice	C	20	68
Caracas	F	18	65	Lima	C	18	64	Paris	C	21	70	Vienna	S	28	82
Casablanca	C	25	77	Lisbon	C	21	70	Peking	C	23	73	Warsaw	S	25	77
Chicago	S	22	72	London	F	23	73	Prague	S	26	79	Washington	R	23	73
Cologne	S	21	70	Los Angeles	F	17	63	Reykjavik	C	10	50	Zurich	C	18	64
Copenhagen	S	22	72	Luxembourg	C	13	55								
Corfu	F	27	81	Madrid	S	29	84								
Dallas	C	24	75	Majorca	S	28	82								
Dublin	S	21	70	Malaga	S	29	84								

Readings at mid-day yesterday
C-Cloudy Dr-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Polish dissidents on stage

Continued from Page 1

price rises had been indispensable. The present budget deficit had been caused by delays in companies' tax payments. The Government did offer its resignation nonetheless, but it will continue to perform its duties until a president is elected. The President will then appoint a Prime Minister

Along with Mr Kuron on the Solidarity benches was Mr Adam Michnik, another of the movement's main spokesmen. Both men are urging Solidarity to offer to form the next government in return for the movement's support for a Communist presidential candidate.

The deputies from the 173-strong Communist Party group in parliament began collecting signatures to support a motion that would nominate General Jaruzelski as presidential candidate. A date is yet to be fixed for the presidential election which will be carried out by the 460 deputies in the Sejm and the 99 deputies in the Senate voting together.

مكرر من الاصل

SECTION III
FINANCIAL TIMES SURVEY

THE FUTURE OF European Capital Markets

Guy de Jonquières looks at how European capitalism is likely to evolve

Distinctive versions will endure

IS THE rough and tumble of Anglo-Saxon style capitalism set to spread across the European Community? How will it mesh with the diverse national financial cultures already in place? Will Europe converge in the longer term around a new capitalist model of its own?

Such questions are starting to loom larger as the Community prepares to face the uncertain challenges of a more integrated financial market, in which capital will circulate freely and many of the regulatory barriers which have long stifled cross-border competition are due to be eroded or removed.

It is a prospect which many in continental Europe contemplate with decidedly mixed feelings. On the one hand, bankers, industrialists and government policymakers throughout Europe are firmly agreed that liberalisation is to be welcomed in so far as it enables capital to be raised more efficiently and in larger quantities.

Many European financial centres are also eager to enhance their international role by attracting business which has until now headed mainly to London. A number of countries have, indeed, already moved unilaterally since the early 1980s to loosen constraints on their domestic capital markets by relaxing exchange controls, overhauling archaic regulations and tackling structural obstacles to competition and innovation.

However, there is also uncertainty and some anxiety about where these trends are leading. In much of continental Europe, there has long been a deeply-held belief that the proper role of finance is to act as the compliant servant of industry, not its wilful master. In the words of Mr Daniel Lebègue, chief executive of France's state-owned Banque Nationale de Paris, financial markets have traditionally been tolerated as "a necessary parasite".

Much as other Europeans respect the City of London's supremacy, many also believe that its recent history provides solid reasons for caution in pushing ahead too rapidly with deregulation. The unchaining of Britain's financial markets, it is often suggested, has inflicted a heavy toll on its economy by exposing its corporate sector to the capricious vagaries of speculation and dubious financial engineering.

Nowhere are hesitations and misgivings more clearly evident than in attitudes towards equity markets which, in most European countries, have traditionally played only a minor role in the financing of industry. The reason is not only that their market infrastructure is poorly developed: it is also cultural and sociological. As Mr George Loudon, head of Midland Montagu, the international arm of Midland Bank, puts it: "There is not a very deep conviction on the Continent that stock markets fit into the social structure."

In that respect, last year's audacious though ultimately unsuccessful takeover bid by Mr Carlo de Benedetti, the Italian entrepreneur, for Belgium's Société Générale holding company, marked something of a watershed. Though even allies of La Générale were obliged to concede that the bid was a salutary shock, which galvanised its management into taking long overdue action to restructure the group, it also disconcertingly underscored the power of financial markets to threaten the established order.

Some other large European companies have since reacted by seeking to insulate themselves from unwelcome financial market pressures. Philips, the Dutch electronics firm, recently bolstered its already elaborate takeover defences, while in France CGE, the electricals group, and Lafarge Coppée, the cement maker, have announced plans to limit voting rights on their shares.

Many critics would argue that such measures to disenfranchise shareholders are inconsistent with the goal of more open and vigorous equity markets and may ultimately impair these companies' ability to raise capital from international investors in the future. It is too early to judge whether that will be the case though, interestingly, Nestlé, the Swiss food group, evidently considers there are risks: it recently decided to relax its restrictions on foreign shareholders' rights.

It would be too simplistic, though, to view Europe's approach to the challenge of financial liberalisation simply in terms of Britain versus the rest. In every country, financial systems and the role they play in the economy have evolved differently, reflecting historical circumstance, the influence of different interest groups and the priorities attached to various economic and social objectives. These differences are underscored by a comparison of France, West Germany and Italy.

Ironically it is France, under a socialist government, which has moved fastest of all to embrace the tenets of Anglo-Saxon capitalism. Since emerging from an ill-fated experiment with a "siege economy" in the the early 1980s, the government has cut back radically the extensive apparatus of state intervention and launched a wide-ranging programme to expose the economy to the discipline of market forces and wider international competition.

The once-moribund Paris Bourse has responded enthusiastically to the stimulus of deregulation, thereby gratifying the aspirations of the French authorities who want to make it Europe's second largest financial centre after London. In terms of capitalisation, it has now drawn level with Frankfurt and has four times as many companies quoted on it. The total value of equity capital raised on it reached a peak of FFr62.8bn (£6bn) in 1986, more than six times the amount in 1981.

French industry, at all levels, today attaches more importance to the profit motive than in the 1970s and to the need to expand internationally, both within Europe and overseas. Last year the value of acquisitions made by French companies abroad reached FFr120bn, more than twice that of foreign takeovers in France.

The change in the business climate has been marked by the emergence of a generation of buccaneering younger entrepreneurs, who have built up

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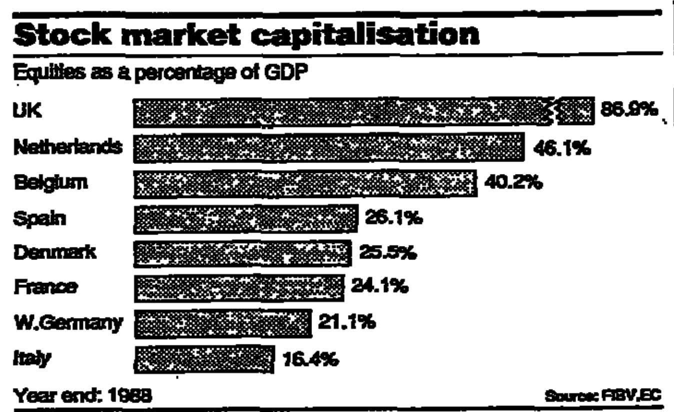
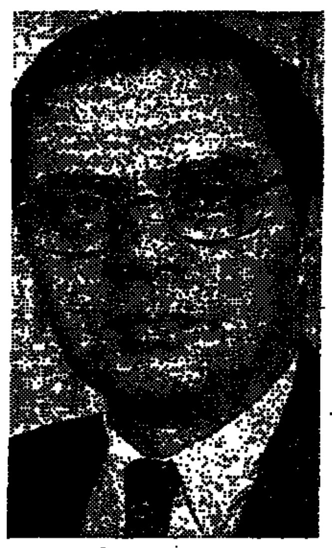
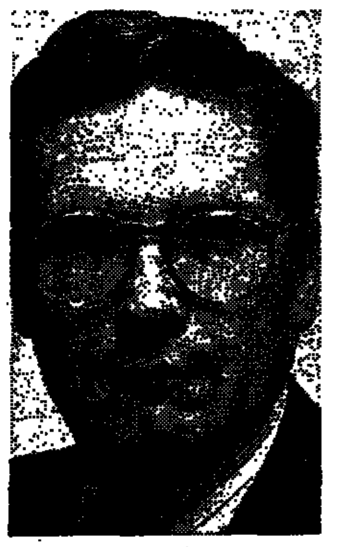




Mr Daniel Lebègue (*left*), Banque Nationale de Paris: financial markets have traditionally been tolerated as 'a necessary parasite'



Mr George Loudon (*right*), Midland Montagu: 'There is not a very deep conviction on the Continent that stock markets fit into the social structure'

David Lascelles on Europe's financial centres

Pitching for a share of London's work

WITH THE approach of 1992 attention will turn to unifying Europe's markets. But in the financial services area, it has raised questions about where and how Europe will conduct its financial affairs in the decades ahead.

It is already noticeable how talk of 1992 has sharpened competition between Europe's financial centres, with individual member states launching vigorous drives to attract new business, mostly by lowering regulatory barriers.

Will this result in a wider distribution of financial activity around the Community? Or will the removal of barriers merely allow financial business to follow its natural tendency to gravitate towards the biggest and deepest markets – in all probability in London, the Continent's largest centre for banking, foreign exchange, securities trading, commodities and insurance.

The issues raised by these questions are partly business ones. Where should banks and brokerage houses locate themselves – close to their clients, close to their markets, or close to everyone else?

The issues touch on market behaviour. Will the Amsterdam stock exchange, for example, be able to remain the central market for shares of Dutch multinationals like Akzo and Philips, or will they reside in London which has evolved as the centre for Euro-equity trading?

The issues are also institutional. How far will 1992 force organisations like stock exchanges, banks and settlement systems to adapt or risk losing business?

There are political issues as well. Will individual member governments support or resist change; will the politicians' instinct be to encourage adaptation, or to protect existing structures?

The consensus view at the moment is that London holds a dominant position, and that the Anglo-Saxon financial tradition of investment banking with its open markets, vigorous trading and transaction mentality will have a big influence on the shape of business elsewhere in Europe.

This view holds that London can only lose as other centres on the Continent adapt and make themselves more attractive.

When Sir Leon Brittan, the Commission vice president responsible for financial services, was asked what London could or should do to protect its position, he replied: "It's not so much a matter of what London does, but what happens in other centres."

Behind the consensus view, however, lie complexities – and complexes – of the real world where each centre has strong local characteristics, deeply entrenched interests and, usually, also a keener awareness of its weaknesses than its strengths.

Frankfurt, for example, is dominated by powerful universal banks, a strong currency and West Germany's economic might. But it has a fragmented regional stock market, a reluctance by the banks to foster change that would threaten their position, and a striking absence of consensus between the authorities and the practitioners over how Frankfurt should proceed.

Amsterdam, unlike the West Germans, does have a consensus. The Dutch have assembled an initiative to make Amsterdam the "financial gateway to

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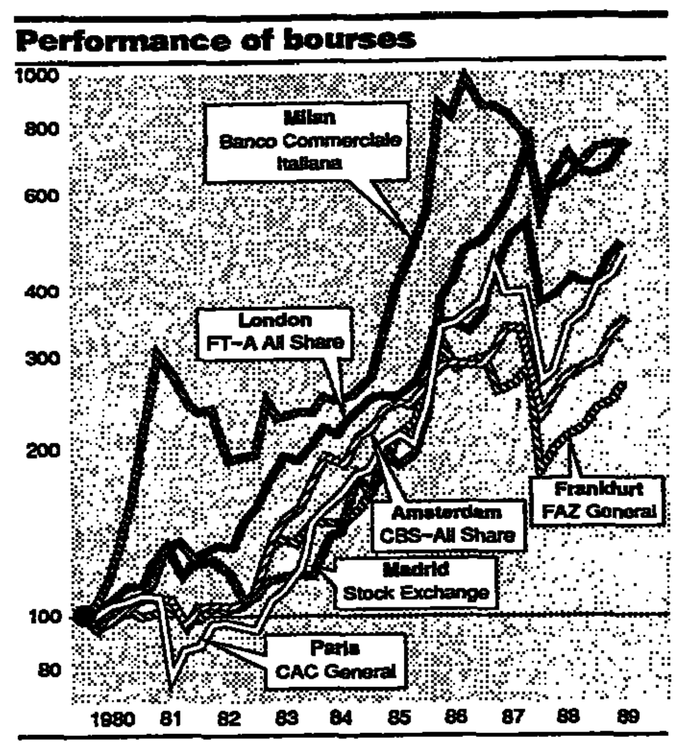


As much a question of culture as of finance

Continued from Page 1

corporate empires through acquisition, and by the increasing popularity of public takeovers (OPAs): the number rose to 40 last year from 14 in 1987. Hostile acquisition tactics have also begun to make an appearance – notably in the bitter battle by Mr Bernard Arnault to gain control of the LVMH luxury goods firm – while the violent boardroom power struggle at the Axa-Midi insurance group earlier this year was settled by an exercise in shareholder consultation with few precedents in French corporate history.

Yet, if France is acquiring some of the trappings of Anglo-Saxon style capitalism, the conversion is still somewhat hesitant. Though many publicly quoted companies are far more attentive then before to their financial results, the managements of many of them have given a higher priority to consolidating their own control than to entrenching the precepts of shareholder democracy. "Cascade" structures, which enable a master company to control a chain of quoted subsidiaries through minority shareholdings, remain common, while legislative action is only now being taken against the long-standing practice of *auto-contrôle*, whereby a parent company's shares are held by its subsidiaries.

Managements of many companies have also sought to protect their independence and control – particularly since the 1987 stock market crash – by assembling clusters of "friendly" shareholders on whom they could rely in the event of a hostile bid. Almost two-thirds of companies quoted on the Paris Bourse now have half their capital in the hands of fewer than 10 shareholders.

This type of arrangement, known as *verrouillage* (locking up) of capital can subject managements to salutary shareholder pressure by involving outsiders committed to the long-term interests of the business. However, critics argue that such defences can just as easily degenerate into the kind of cosy cronyism which traditionally characterised the upper echelons of French business and was blamed for creating "capitalists without capital".

That risk is all the greater in a market where most institutions hold a relatively small proportion of equities in their portfolios and are unused to exerting direct pressure on the companies in which they invest. It is noteworthy that the decisions by CGE and Lafarge Coppée to curtail the rights of large shareholders passed almost without a murmur of complaint from French institutional investors.

At the level of government, there is an equally marked ambivalence. While promoting deregulation and competition with one hand, the Mitterrand administration is asserting with the other the notion that the state should somehow act as a bulwark against and counterweight to the presumed excesses and distortions of the free market.

In part, this is purely political rhetoric, intended to pacify the government's left-wing supporters and to provide a rationale for continued large-scale public ownership. However, it also appears to be a response to an underlying – and arguably exaggerated – sense of vulnerability, as France prepares to open its economy to the challenges of the single European market.

Much of the government concern stems from fear that French companies could become tempting takeover targets for bigger foreign predators more interested in bolstering their own bottom line than in strengthening French industry. Officials in Paris often talk admiringly of the "father-figure" role played by the German banks in nurturing their corporate clients – while, ironically, railing in the next breath at the obstacles to foreign takeovers in Germany.

West Germany faces a different home-grown challenge: *for the first time, there are signs that the close ties between its commercial banks and their corporate customers may be starting to loosen up a little*

In practice, it is difficult to see how much the government can do without reverting to overt protectionism or compromising the thrust of the market-oriented reforms it has set in train. Its most-publicised attempt at direct intervention in the market, the backing of a raid on the privatised Société Générale bank in an effort to reconstitute its core shareholdings, ended in an embarrassing débâcle, which did no good to its own image or to that of the Bourse. That episode has given further impetus to regulatory reform intended to improve the transparency of financial markets – and correspondingly reduce the scope for furtive official intervention.

Indeed, even the government's ability to retain control over the large state sector is in some doubt. Lacking the budgetary resources to finance fresh investment, it recently turned to the Caisse des Dépôts, the state savings institution, to help recapitalise the nationalised Crédit Lyonnais bank, and there is talk of turning the Caisse into a state investment bank.

Yet it is unclear whether this could be much more of a stop-gap solution. The Caisse's own resources, though ample, are not unlimited. In the longer term, if France's state-owned industries are to continue to raise funds for expansion, the likelihood is that the government will gradually have to resume by the back door the privatisation programme which it suspended last year.

While France teeters uneasily between the étatiste tradition and the pull of the market, West Germany's financial system faces a home-grown challenge of a different kind. For the first time, there are signs that the close ties between its commercial banks and their corporate customers may be starting to loosen up a little.

Flush with internally-generated funds, German industry needs bank lending less than it once did: last year, the banks financed only 2 per cent of industrial investment. In many large and medium-sized companies, financially more sophisticated managements are driving a harder bargain: increasingly, single "house" banks are being replaced by multiple "core" banks, which are encouraged to compete for business.

At the same time some banks, such as Dresdner, are starting, by choice or necessity, to slim down their portfolios of industrial shareholdings – a trend which may be encouraged by planned EC limits on such stakes. In the longer term, many observers believe the banks' advantage may be further eroded by keener competition for retail deposits, which currently provide a large and stable source of low-cost capital. So far, the threat has been kept at bay, partly by dint of alliances with insurance companies, the main source of rivalry for the small saver's D-Mark. However, the competition may become fiercer if, as some predict, the German authorities allow the introduction of high-yielding money market funds.

The banks, therefore, face the prospect of having to fight harder for business in future. Some German analysts predict commercial pressures will oblige the banks to pay increasing attention to short-term returns, and that a more performance-oriented approach will be difficult to reconcile with the patient, long-term attitude which they have traditionally displayed towards their corporate clients.

Yet the banks are unlikely to be dislodged easily from their central position in the counsels of German industry. Their corporate relationships are in many cases cemented by a deep knowledge of companies' businesses and of their managements, derived from long-standing representation on their supervisory boards. The influence which they can wield, if necessary, through their direct shareholdings is buttressed by their control over large numbers of proxy votes entrusted to them by their customers.

The banks' readiness to step in and support them if things go really wrong is also a source of reassurance which few companies would lightly discard – and one of which German bankers themselves make much. In the words of one executive of Deutsche Bank, after it rescued the troubled Kloeckner trading company last year: "Such events are a valuable reminder to the world that relationship banking is a two-way street."

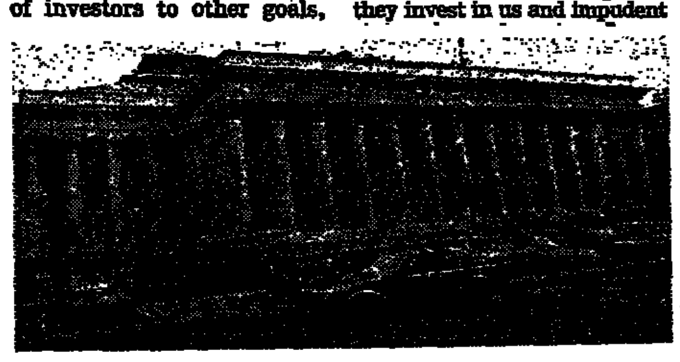
But probably the most important factor working in the banks' favour is the acute reluctance of most of German industry to turn to the stock market as an alternative source of finance. The vast majority of German family-owned companies balk at the disclosure and surrender of control implied in a stock market listing, while, among quoted companies, the tradition of subordinating the short-term financial interests of investors to other goals, notably the long-term prosperity of the firm, its employees and the community in which it is located, remains deeply-rooted.

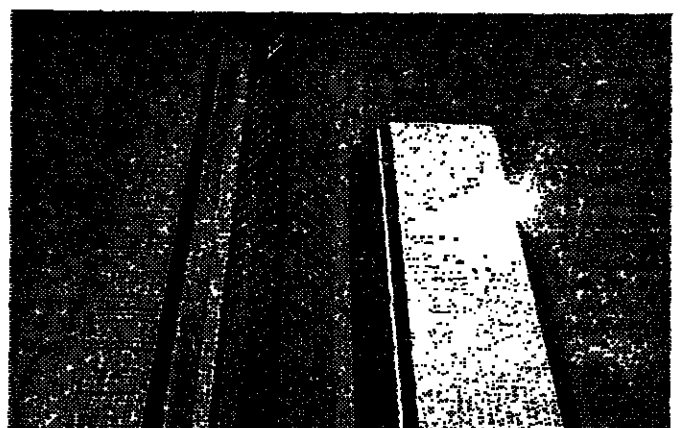
"Managements in Germany, if they are honest, will admit that they see shareholders once a year, and the *Betriebsrat* (works council) once a week," says one German banker. Another, half-jokingly, suggests that attitudes in some quoted companies are still reminiscent of the view expressed by a 19th century banker that: "Shareholders are stupid if they invest in us and impudent if they demand a return."

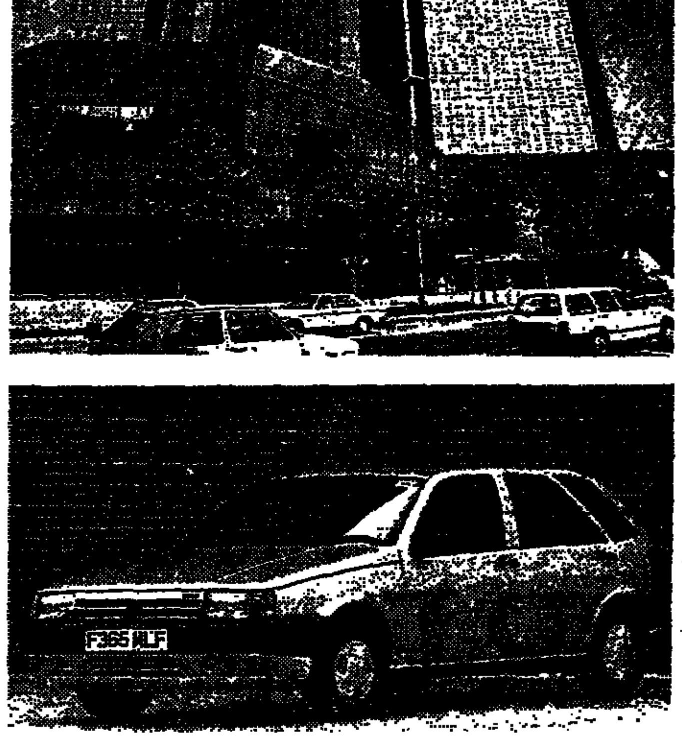
The obvious strength of the German system is that, at its best, it does allow management considerable latitude to concentrate on running the business undisturbed by extraneous distractions. The major criticisms of it are that it can easily become a cosy closed circuit which breeds management complacency; and that a credit-based relationship system, heavily biased in favour of preserving the status quo, discriminates unduly in favour of the established company and industry, and against the untried newcomer.

"The commercial banks perform an extremely good universal function, helping their customers through bad times," says Count Albrecht Matuschka, a Munich-based venture capitalist and investment banker. "But where are the new companies? The system simply doesn't allow for fast growth."

The German commercial banks have often been accused of using their power to frustrate financial liberalisation and innovation in order to protect their own business. There is, undoubtedly, some truth in this. The other side of the coin, however, is that there has been little pressure so far from the banks' own domestic customers – or German investors – to do things differently. So long as the latter remain innately conservative, change is likely to be evolutionary, rather than revolutionary.







Pictured left: the Paris Bourse (top), Deutsche Bank, and the Fiat Tipo. Three symbols of Europe's different ways of doing things

Italy, curiously enough, has some features in common with West Germany: a seriously under-developed stock market, and an economy rich in small entrepreneurial firms which prefer to rely heavily on debt rather than tolerate the surrender of control and regulatory obligations involved in the issue of traded equity. There, however, the parallels end.

For the defining characteristic of capitalism in Italy is not the relationships between industry and the banking system, which is both inefficient and highly fragmented along regional lines, but the role of the family and feudal allegiance as the basic models of economic organisation.

This holds true at all levels of the economy, in the public as well as the private sector. The country's sprawling nationalised industries, which include most of the banks, have long been regarded by rival political parties as a preserve of patronage. Even though political meddling in state groups has, in recent years, been checked by the application of firmer professional management, the tendency of parties to regard key appointments in them as theirs by right still persists.

In the private sector, the four or five large industrial groups – including Fiat and the de Benedetti and Gardini empires – which account for more than three quarters of the capitalisation of the Milan bourse also conform to a similar pattern. Family-controlled and dominated by their founders or their heirs, their behaviour is profoundly marked by the personal influence and connections of the men at the top of them.

Personal connections count for much in the construction of the complex networks through which these groups exercise control over their widely diversified interests. In many cases, control of an individual business does not require majority ownership and depends on alliances negotiated by several minority shareholders working in concert. As Dr Patrizio Bianchi, an industrial economist at Bologna university points out, the power exerted by individual shareholders in such arrangements often depends less on the size of their holdings than on their standing with and influence over fellow shareholders.

The defining characteristic of capitalism in Italy is not the relationships between industry and the banking system but the role of the family and feudal allegiance as the basic models of economic organisation

Given the vigorous recovery of Italy's economy during the 1980s, despite the handicap of a chaotic public sector, it would be hard to argue that Italian industry's performance has been severely handicapped by a primitive capital market or by its system of family-based capitalism. However, it is much more questionable how appropriate the system will be in the future.

Its critics point to three weaknesses in particular:

● In the absence of an effective competition policy, the larger groups have acquired extensive – some critics would say excessive – control over large sections of domestic industry. The lack of regulatory constraints has, it is alleged, led to an unhealthy concentration of economic power and encouraged these groups to give precedence to the consolidation of their home market position over international expansion. Fiat, for instance, has by far the highest dependence on its home market of any European volume car manufacturer.

● The country's industrial structure is unbalanced, with a few very big groups, many small ones, but relatively few medium-sized ones. "How far this is the result of inadequate capital markets or the product of other factors, such as the attitudes of owner-managers is, however, widely debated."

● The prevalence of family ownership may pose problems of management succession once the current generation of entrepreneurs retire or die. "This problem, unfortunately, does not just apply to small companies," says a senior government official. "It may also affect the larger groups in future as well."

Italy has been able to live with these handicaps as long as important parts of its domestic market have been sheltered from external competition (notably from Japan) and while its industries' international activities have been heavily export-oriented. In the 1990s, however, it is likely that its economy will be more exposed to international influences, while its industry will need to invest more abroad and forge new alliances with foreign partners in order to maintain its position on world markets.

These developments seem likely to impose pressure on the traditional structures and practices of Italian capitalism. The question for the future is how far the latter can adapt effectively to the challenges of international economic integration, or whether they will be simply elbowed aside by the rude intrusion of external forces which neither know nor care about the Italian way of doing things.

It is clear that right across western Europe financial systems, and their intricate relationships with the rest of the economy, are entering a period of important change, and that its pace is likely to accelerate in the next few years. Strains will almost certainly result, as the familiar workings of the established order are exposed to the impact of freer competition and more mobile capital flows.

But while Anglo-Saxon experience will obviously influence the development of deregulation in continental Europe, it seems unlikely to become the universal norm. As capital markets become more closely integrated, they are bound to develop more common characteristics. But financial systems also reflect social, cultural and economic traits, which vary considerably from country to country. They are likely to ensure a number of distinctive versions of European capitalism well after 1992.

Left to right: Lord Hanson; Sir Gordon White, Hanson Industries; Mr Rudolph Agnew, Consolidated Goldfields

Clive Wolman on the relationship between industry and the City

Era of shareholder power

THE 1980s has been the decade of the reassertion of shareholder rights in Britain. And that, in turn, has meant a fundamental shift in power away from corporate management towards the City and the financial institutions which act as shareholders or advisers.

The boom in corporate financial advertising, financial public relations and the investor relations industry, which has supplemented and often supplanted the traditional role of corporate stockbrokers, is an indicator of the attention that managers now have to pay to shareholders. The increasing use of employee share and share option schemes, although partly the consequence of changes in the tax system, also highlights a greater concern to make the interests of managers and shareholders more congruent.

But, undoubtedly, the most important measure of greater shareholder power, which underlies these other developments, has been the hostile takeover bid.

In retrospect, the early to mid-1950s appear as the era in which managerial capitalism and the divorce between ownership and control reached its apogee. On the one hand, more than 75 per cent of the shares in UK publicly-quoted companies were still held directly by private investors, who found it difficult to flex their collective muscle. At the same time, the degree of concentration of a few large companies or cartels and the lack of competition ensured that corporate managers were under little pressure from their customers either. The upshot was widespread complacency among British managers.

The boom in mergers and acquisitions has accelerated since 1983 and reached a new peak last year, in spite of the general nervousness and the low levels of ordinary trading in shares in the aftermath of the October 1987 stock market crash. These figures exclude the boom in transatlantic and pan-European mergers.

There have been previous spurts of merger activity, in the early years of the century and in the late 1960s, which were just as large as that of the 1980s in relation to the UK's stock market capitalisation.

The difference this time has been in the number and the size of the companies which have become the targets of hostile bids. The BTR bid for Thomas Tilling in 1983 set a new record for size at less than £1bn. In 1986, two hostile mega-bids, worth £2.5bn each, were successfully completed by Hanson for the Imperial Group and by Guinness for Distillers. The £3.5bn Minorco bid for Consolidated Gold Fields, thwarted in May, has since been followed by another £3.1bn offer by Hanson.

The growth in sophisticated techniques of capital-raising and financial engineering means that virtually no British company is now immune from a hostile bid on grounds of size.

The generally non-interventionist stance of the government since 1984 has also weakened the defences of incumbent managers, although the apparent lack of consistency over the last 18 months in the referrals of bids to the Monopolies and Mergers Commission has led to the withdrawal of several bids. But the most important factor has been the growth in the power of institutional shareholders, in particular the life insurance companies and pension funds. They now account for more than 65 per cent of the shares of UK companies. The pressures on the fund managers to out-perform their competitors through higher investment returns have encouraged them to accept bids made, on average, at 30 to 40 per cent premiums to the original share price.

One study argued that many takeovers work only by breaching the implicit contracts between a company and its employees – for example their expectations of job security

The takeover boom, fuelled by this seeming obsession with short-term gains, led to a swell of protests among many senior corporate executives, as well as among employees, trade unions and politicians. They reached a crescendo in the period just before the stock market crash when the Confederation of British Industry set up a City-industry task force to examine relations between the two.

The task force report was a disappointment for those who hoped it would mark a turning point in City-industry relations and would lead to a change in the climate of opinion against takeover bids. Representatives from the academic world convinced the rest of the group that stock markets were not systematically myopic. Indeed, share prices, the group accepted, generally represent the best estimates of the earnings potential of the company over the longer term.

The main recommendation of the report was a bland one: that companies should improve the quality of the information they disclose and their communications with shareholders. It is difficult to judge how important a factor this is: a survey by MORI last year of 147 institutional investors and 365 investment analysts showed that only 16 per cent rated communications, openness and frankness as a major factor in judging a company's management.

But the conclusion fitted in with the trend towards the Americanisation of industry-investor relations. In place of the old relationship based on a network of informal and personal contacts – and often lethargy – the new relationship is on an arm's length and ruthlessly professional basis. The corporate stockbroker, with his long-standing and discreet contacts on the old Stock Exchange floor, is being replaced by the investor relations consultancy.

How much, if at all, has British management and industry improved as a result of all these costly exercises – both takeover battles and communications – and from the ascendancy of the shareholder and the City's financial institutions?

The academic evidence, in particular a comprehensive study of UK mergers and acquisitions since the mid-1950s carried out by Professor Julian Franks of the London Business School, strongly suggests that takeovers do increase shareholder wealth. On average, the share prices of target companies decline relative to the stock market index over the three years prior to the takeover. But the bid is then completed at a sufficient premium to wipe out this loss – and add a little more. Even the shareholders of the bidding companies, on average, gain slightly as a result of the bid. In addition, the advocates of the City and its practices in encouraging takeovers believe that the mere threat of a takeover has a powerful effect in pepping up corporate management.

What these studies do not demonstrate is whether these gains to shareholders are of benefit to the economy – or are merely at the expense of other stakeholders in the company. One paper published in 1987 by the Financial Markets Group of the London School of Economics argued that many takeovers work only by breaching the implicit contracts between a company and its employees – for example their expectations of job security.

In the long run, the placing of City-industry relations at an arm's length, transactional basis will lead to a similar deterioration in the relationship between companies and employees, the authors argue. Employees no longer trust their implicit contracts and their commitment weakens. Thus the change in the relationship between City and industry during the 1980s has merely brought a one-off gain, by this argument, for which the price will have to be paid in the future.

There have certainly been some extreme and well-publicised examples of attempts to breach implicit contracts, for example in Hanson's moves to strip out the pension fund surplus of Courage Breweries. But most of the mainly anecdotal evidence suggests that takeovers, and the associated transformation of City-industry relations, have improved British management and productivity.

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EUROPEAN CAPITAL MARKETS 3

The flow of capital in Europe could match the pattern of trade imbalances, argues **John Plender**

Recycling West Germany's excess savings

AS THE European Community moves towards the completion of the single market, trade imbalances in Europe are growing at an astonishing rate. More specifically, West Germany is now running a bilateral trade surplus with every country in the Community except Ireland.

The question is whether it matters. For, with the progressive removal of capital controls, it is quite possible that the German surplus will be offset by private capital flows, thereby avoiding trade friction and pre-empting turbulence in currency and financial markets.

The case for optimism rests on the scope offered by the 1992 liberalisation programme for a more efficient allocation of savings and investment across national boundaries. All the instincts of the average European may be to think that trade imbalances are unhealthy and that surpluses and deficits are, in some innate sense, respectively "good" and "bad". Yet those imbalances may simply reflect the forces of demography and of relative returns on investment in different Community countries.

West Germany is the first developed country to confront the problem of a shrinking population. Shrinkage started in the mid-1970s and is having a progressive impact. Between 1990 and 2025 the population of working age is expected to decline by more than a fifth. Little change is expected over the same period in the larger European economies such as Britain, France and Italy. But countries on the fringe of the Community such as Spain, Portugal and Greece will almost certainly show marked increases in numbers.

This is economically significant because a country with an aging and declining population will save more and invest less than one with a population that is growing fast. It is a reflection of the natural pattern of saving over people's lifetimes: youth borrows and spends, while middle age saves for retirement. It follows that a youthful, growing population will tend to save less. But if additions to the workforce are not to result in unemployment, there will be a need for a higher rate of investment to support faster growth. So it makes sense for West Germany's excess saving, which has its counterpart in the continuing trade surplus, to be recycled to the rest of the Community.

All this underlines the point that trade deficits should not be seen purely as the result of policy failure or economic weakness

The economic logic for this recycling exercise is further reinforced by the pattern of relative returns on investment. As Credit Suisse First Boston points out in a recent research note on capital flows and trade imbalances in Europe, the removal of exchange and other controls facilitates the flow of capital to regions, industries and companies where the marginal productivity of capital is highest. Often that will be where average productivity, and hence wages, which tend to reflect average productivity, are low. In other words the potential for super-normal returns from "greenfield" investment projects in the less capital-intensive economies of Europe encourages the import of capital, production and jobs from savings-rich countries.

That rationalisation certainly corresponds neatly with the recent stampede by northern European businessmen into countries such as Spain — the Eldorado of the 1992 programme — and Portugal, both of which offer obvious labour cost advantages. But the traffic is not necessarily all North-South. Britain, too, is a cheap labour country with a relatively docile workforce. Hence the decision by Fiat, Europe's biggest car maker, to look at Britain alongside Spain and the Italian Mezzogiorno as a potential host for a new plant.

All this underlines the point that trade deficits should not be seen purely as the result of policy failure or economic weakness. They may be driven by capital flows and be associated with an enhancement of the underlying capital stock. By the same token, the West German current account surplus, which has been running at over 4 per cent of GNP for the past three years, is not necessarily an indicator of economic strength. The other side of the German balance of payments coin is a shortage of investment opportunities in the domestic economy capable of matching the returns available elsewhere in the Community.

There is, of course, a risk in being the rentier of Europe. It means relying on Britons, Spaniards and Greeks not only to pay out German pensions but to pay them in pounds, pesetas and drachmas that have not been devalued in the currency markets. Put another way, German businessmen have to know that exchange rates are unlikely to adjust to reflect high marginal returns in low-cost countries if they are to maximise the potential of the single market.

In practice, the existence of the exchange rate mechanism of the European Monetary System, in which realignments are becoming noticeably less frequent, appears to have greatly enhanced confidence in the stability of returns across Europe. This is certainly true of West Germany, where both direct investment and portfolio investment appear to have moved into a higher gear from around 1984 — though the flow probably accelerated partly in response to the threat, now defunct, of the introduction of a withholding tax.

The intriguing question that this raises is whether Britain, which now looks even more isolated after the Spanish decision to take up full EMS membership, can really have its cake and eat it while remaining outside the charmed exchange rate circle. For this is a case of a trade deficit that does reflect policy failure. The very least that can be said is that running the biggest deficit in Europe with a currency that lacks the full EMS stamp of approval entails above average risks. And recent bouts of sterling weakness suggest that the British may end up paying a needlessly high price, in interest rates, for Mrs Thatcher's doctrine of perpetually unripe time in relation to full membership of the EMS.

For those within the exchange rate mechanism the natural recycling process from surplus to deficit countries would, in an ideal world, continue smoothly until labour costs and investment returns across the Community equalised. The reality, even if the goal is ultimately reached, is likely to be more stressful, not least because individual countries do not start from a position of internal and external balance. Italy, for example, which offers potential for high real returns, though not perhaps on the scale of Britain or Spain, has a very high savings ratio of more than 20 per cent of disposable income and the biggest general government financial deficit of any OECD country.

The existence of the exchange rate mechanism of the EMS appears to have greatly enhanced confidence in the stability of returns

Since the public sector debt is of very short maturity, domestic monetary policy is exceptionally vulnerable to external influence. And the burden of interest payments, if the lira were to weaken, would be thoroughly destabilising for the whole economy. In the view of Dr Rainer Masera, head of Italy's biggest medium and long term credit institution, IMI, there is only a limited choice in relation to Italy's current account. It lies, he says, between equilibrium and a small deficit. In a world of free capital flows, there is ultimately no escape from exchange rate discipline over fiscal policy, even though active debt management can weaken that discipline by, for example, extending debt maturities.

Equally problematic is the source and direction of portfolio investment flows within the Community. An aging population in West Germany or the Netherlands might naturally be expected to seek remunerative long-term assets in the rest of Europe to match long-term pension liabilities. Yet the ability of other countries in the Community to generate such assets is very limited. In the South, bond markets in Italy, Spain, Portugal and Greece are, to put it kindly, underdeveloped. As for equities, the size of Europe's bourses bears no relation to the strength of the individual economies.

A much lower proportion of the continental European corporate sector is quoted than in the United States, Japan or Britain

Apart from Britain, the bourses tend to lack liquidity. Some, such as Italy, where five groups account for 80 per cent of the stock market capitalisation, are heavily concentrated. Even France, the best of the continental bunch, has not escaped regulatory scandals. The fact is that much continental European equity is of low quality, because the rights of the equity holder are very limited; and both the tax system and costs of flotation often make equity an expensive form of capital relative to bank finance or debt.

While privatisation has recently increased the supply of equity coming onto the market, entrepreneurs in West Germany, Italy and, to a lesser extent, France (where four times as many companies are quoted as in the Federal Republic) are reluctant to concede control of their companies to outsiders. This results in a much lower proportion of the continental European corporate sector being quoted than in the United States, Japan or Britain.

Yet the problem here may be more apparent than real, in the light of the structure of the German savings market. Germans have a powerful cultural antipathy for equity investment. Such is their lack of interest that more than half the equity trading on the Federal Republic's stock exchanges is generated by foreign institutions. Private domestic investors tend to regard equities as another form of bond — with some justice in view of management's lack of interest in raising dividends in line with profits. They became net purchasers of equities for the first time in years after the 1987 Crash on the basis of a rise in dividend yield relative to fixed interest returns. Industrialists, meantime, traditionally looked to the banks for long-term capital.

As for the investment institutions, their scope for investment in equities is heavily circumscribed by law. More importantly, the occupational pensions system places little reliance on Anglo-Saxon-style funding. Instead, there is widespread self-investment, whereby workers pension contributions are invested in their own company. The pensions reserve on the liabilities side of the balance sheet has its counterpart in assets such as the plant, machinery, debtors, investments and cash that are deployed in the business. And, by now, German industry's pension reserves constitute a more important source of long-term finance than the banks.

It follows that, direct investment apart, German pension contributions will probably find their way to the rest of Europe via the banking system, the only question being how far the international banking fraternity manages to muscle in on the German domestic banks' act. Indeed, given the lack of well-developed securities markets capable of absorbing this flow, there would be greater trouble if the Germans were moving towards a funded pensions system more rapidly than they have so far been willing to do. Capital would tend to be diverted to well developed Anglo-Saxon markets, thereby reducing the relative cost of capital to the Americans and British vis-à vis the continental Europeans.

There is, none the less, a powerful case for enhancing the quality of European equity and debt markets by regulatory and fiscal means to facilitate a more efficient flow of long-term capital. As ever-increasing sums swill around the system, the pressure for further financial liberalisation will also become more intense. Governments will recognise that tax penalties on investment income, excessive regulation and inefficient financial markets are denying them a fair share of the European pensioner's nest egg, and thus the opportunity for lower interest rates and capital costs.

Demographic trends and the need for fiscal prudence may also impose pressure for independent occupational pensions funding in those countries like Italy which rely almost entirely on generous state pension schemes.

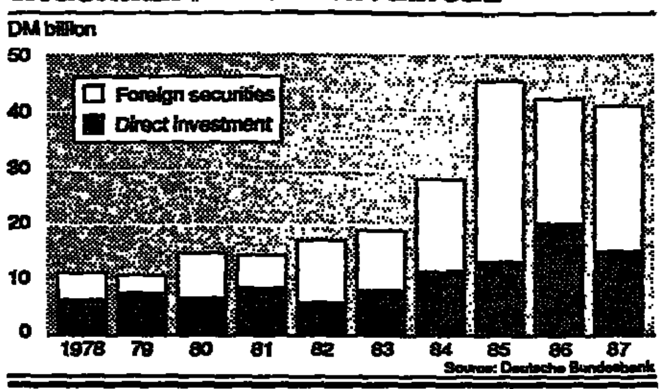
That said, there is no reason why the flow of capital in Europe should directly match the pattern of trade imbalances. The lifting of exchange controls provides access to the global market and the D-marks that the German investor puts into a Japanese or American company's Eurobond issue may end up financing the British payments deficit through those (or other) companies' direct investment flows. And the Euromarkets, the original rationale of which was to provide a cheap and flexible alternative to heavily-regulated domestic financial markets, will become more integrated with the markets to which they have been providing largely unregulated competition.

The wider question is how far capital market liberalisation in Europe will put pressure on the deficit-prone United States by opening up competitive investment opportunities in the Community and to what extent the German enthusiasm for perestroika will find an outlet in capital flows to the Soviet Union. It could be that East-West financial relations under President Bush will carry an echo of the row over energy relations in the early days of the Reagan Administration. Yet, from a purely economic point of view, the countries of the European Community look a much safer bet to provide West Germany with a decent retirement income. Either way, recycling in Europe is undoubtedly set to become a new financial vogue.

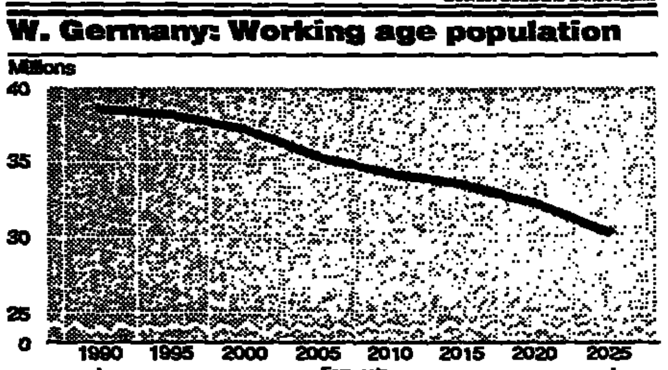
As ever-increasing sums of money swill around the system, the pressure for further financial liberalisation will also become more intense

Between 1990 and 2025 the population of working age in West Germany is expected to decline by more than a fifth

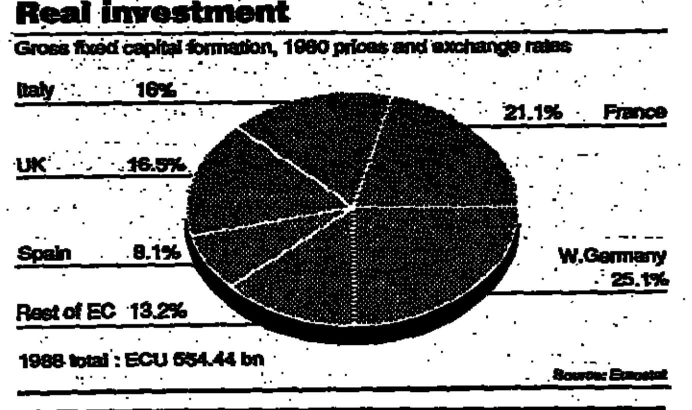
W.German investment abroad



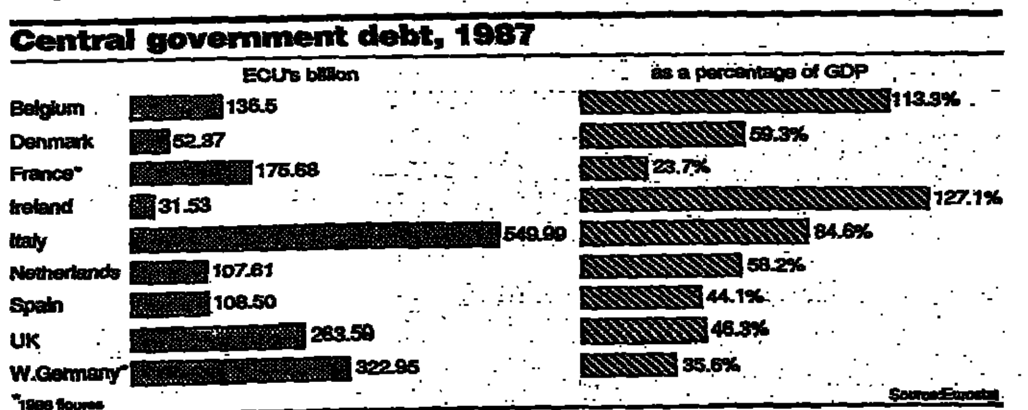
W. Germany: Working age population



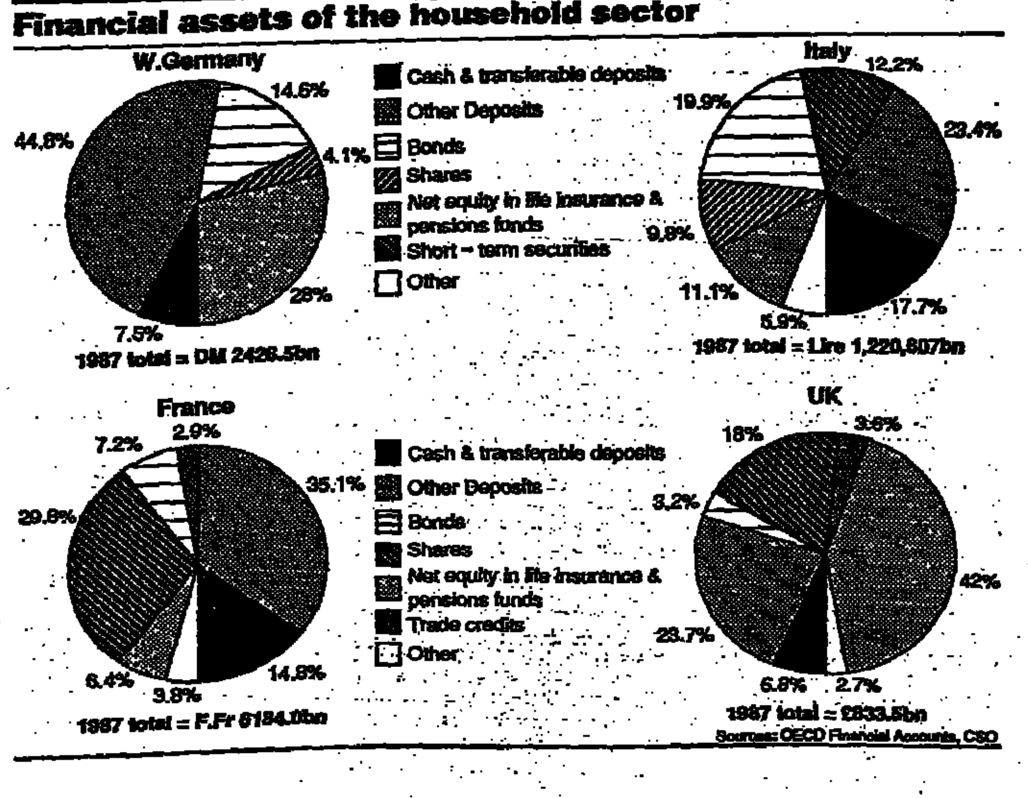
Real investment



Central government debt, 1987



Financial assets of the household sector



Merger control policy across Europe is in the melting pot, writes **William Dawkins**

The case for a single, simplifying regime

THE European Commission's plans to oblige big cross-border deals to seek advance clearance from Brussels have forced the 12 EC Governments to reassess their own very different attitudes to competition policy. The outcome will be of supreme importance to the hundreds of companies seeking various kinds of cross-border alliances in the run-up to the 1992 creation of a single European market.

If the Commission gets its way, the EC regulation will override the complex web of differing national anti-trust rules which so complicate cross-border takeovers. Brussels has already won the battle for a merger policy of some kind. The big question now is what form it will have – and member states are not taking to it easily.

For one thing, the larger member states do not like formally ceding this highly sensitive power to Brussels. It will make it that much harder for them to ban foreign attempts to take over companies of national strategic interest, though no doubt they will continue to try.

Yet European governments will, in the end, give some form of EC merger control regulation the unanimous support required, if only because Brussels already has extensive powers – yet ill-defined – in the form of the existing competition provisions of the Treaty of Rome. Almost anything must be better than the current uncertainty over how far EC competition rules can be applied to mergers, the argument goes. "It has been the biggest lacuna in EC competition law for the past 10 or 15 years," says Mr John Swift, a London QC specialising in competition law.

Almost anything must be better than the current uncertainty over current EC rules

The lack of consistency between Europe's four most developed national anti-trust policies, those of West Germany, Britain, Ireland and France, is itself a symptom of their very different views of the wider role of competition policy. "The main area of conflict is the exercise of concurrent national legislations. How they are going to resolve that crucial area remains to be seen," says Mr Swift. Equally, these differences bolster the Commission's case for a single simplifying regime.

Europe's anti-trust bodies have one thing – but only one – in common. They accept the basic tenet that merger control policy exists to control or ban attempts to create dominant market positions on the grounds that these will drive up prices and stifle innovation. In that sense, they are all aiming at roughly the same target.

Beyond that, the common ground ends. At one extreme stands the sophisticated West German Bundeskartellamt. It prides itself on applying pure competition criteria, even though some suspect it takes an especially tough line against incursions by foreign companies on German territory. At the other extreme, small countries like Belgium, the Netherlands and Denmark have no developed national anti-trust rules and are looking to Brussels to produce an off-the-peg merger control policy that they can neatly apply at home. In that sense, their interests are directly opposite to West Germany's.

In the middle, the British Monopolies and Mergers Commission (MMC) and the Irish Examiner of Restrictive Practices, see competition as the mainstay of their anti-trust rulings, but also take account of whether mergers are in the public interest. Then there is the fledgling French system, ostensibly based on competition but with a much stronger political input than the rest, in line with France's tradition of centrally-directed industrial planning.

What the Commission appears to want is to take the Bundeskartellamt as a European model and somehow fit it on top of the other vastly different national approaches. "The crucial question is one of what standards of competition policy you use. That matters much more than the mere numbers," says Professor Wolfgang Kartte, Bundeskartellamt President.

"It's all very well talking about a one-stop shop for big mergers. It just depends on who is doing the shopping," adds Dr Martin Howe, director of the competition policy division of the UK Office of Fair Trading. A quick comparison of the state of play in Brussels, Berlin, London and Paris, illustrates their point.

Most big cross-border takeovers already seek clearance from the Commission as a matter of prudence, even though existing competition rules only give Brussels legal power to get involved after the completion of the deal. The most recent include GEC and Siemens' bid for Plessey, Metalbox Packaging's merger with Carnaud and Daimler-Benz's plan to buy a stake in Messerschmitt-Bolkow-Blohm (MBB).

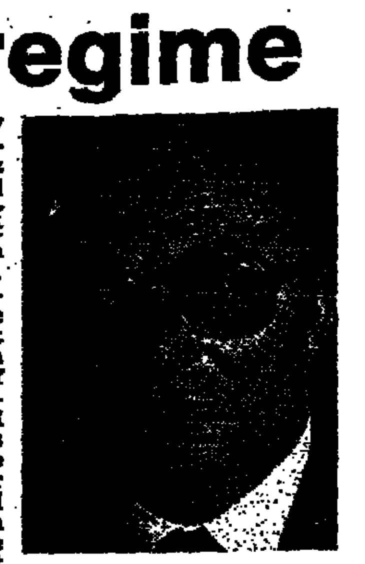
The proposed EC regulation would formalise this state of affairs by demanding pre-notification from mergers with a combined world annual turnover of Ecu5bn (£3.4bn) initially, dropping to Ecu2bn at the end of 1992. Deals of that size would be exempt from the Commission's scrutiny if the smaller party has EC-wide sale of less than Ecu100m and if more than two-thirds of the combined turnover of the new group came from one member state. For deals below these levels, national anti-trust laws take precedence, proposes the Commission.

Brussels is promising to use primarily competition criteria in its judgements. The northern liberal governments see that as an over optimistic promise, while the French, Italians and Spanish would like variously to see industrial and regional policy judgements to come into EC merger rulings.

The nearest national system to what the Commission is proposing is the Berlin-based Bundeskartellamt, itself modelled in 1958 on US anti-trust laws' rigorous use of pure competition principles. It is also the only national anti-trust authority in Europe, apart from Ireland, to insist on vetting big takeovers in advance.

The German body sees itself under threat from both Brussels and the Federal Government in Bonn. Indeed, it is the Commission's fiercest opponent, for the EC proposal is an unacceptable threat to its considerable power. At the same time, the Bonn Government is expected in the next few months to overturn the authority's ban on the Daimler-Benz link with MBB, a rare and untimely slap in the face for the powerful Bundeskartellamt and one which might even prompt its President to resign.

What worries the Bundeskartellamt's Dr Kartte most is the chance that Brussels might succumb to those southern European pleas for the use of merger control as an instrument of industrial and regional policy, also anathema to his colleagues at the British Office of Fair Trading and MMC. For that reason, the London and Berlin cartel authorities both want any EC regulation to be enforced by an independent European anti-trust office that bears the same arm's length relationship to the Commission as they do to their own governments.



Professor Wolfgang Kartte

The British anti-trust system – like the rest of the UK's constitution – is more flexible than the German and EC equivalents. The Office of Fair Trading exists to advise the Department of Trade and Industry (DTI) solely on the competition implications of mergers that interest it, a power introduced in 1965. It is then up to the DTI to decide whether to refer the case to the MMC, which also advises on the broader issue of whether the deal is in the public interest, though the 1984 Tebbit guidelines aim to give more stress to pure competition criteria. Just what that means in practice is the subject of fierce debate.

How far will member states get away with citing national interests?

A prime examples is the MMC's decision last October to force the Kuwaiti government to sell its 21.6 per cent stake in BP on what it declared were public interest grounds. Yet many lawyers argue that the MMC could equally well have done this for competition reasons. Curiously, the European Commission raised no objections. Indeed, it is remarkable that the Brussels and London competition authorities have so far produced very similar judgements on the mergers before them, even to the extent of regularly issuing their respective judgements within a day or so of each other. The same cannot be said of the Bundeskartellamt's relations with Brussels.

Whatever the uncertainties, an important feature of the UK and German systems is that they keep a clear division between the body that makes competition decisions and the exercise of broader judgements. "There is a clear distinction between the way we and Brussels operate. We have a clear separation of powers and they do not," says Mr Stephen Burbridge, secretary to the MMC.

French merger control, created by a 1986 law, is in its infancy by comparison. Ostensibly, there is a UK and German style separation of powers in the shape of a Competition Council, which advises Mr Pierre Beregovoy, the economy and finance minister, in the same way that the OFT advises Lord Young, the UK Trade and Industry Secretary. Yet Mr Beregovoy appears to override his anti-trust advisers more easily than his counterparts elsewhere, the most recent example being his March decision to block the takeover of Spontex, the household sponge maker, by 3M, the US conglomerate, against the Competition Council's advice.

His official advisers have a far wider view of the role of merger control policy than their European counterparts. They speak of taking into account the broad development of the market and using competition policy as an economic tool, primarily to curb the inflationary influences that monopoly price distortions might bring. Many corporate lawyers take a more cynical view. "The government used to use exchange controls to keep foreign investors away. Now that those controls are going to be phased out, the government is using competition rules to take over the same job," says one.

Several competition lawyers argue that the extent to which member states will still get away with citing national interests to block big cross frontier mergers will make or break the future EC regulation. Under the current Commission proposal, mergers that get Brussels' go-ahead on pure competition grounds could subsequently be blocked by national authorities if a legitimate national concern is threatened, like the plurality of the media or the financial soundness of the bidder.

Just how protectionist-minded governments will interpret that provision could provoke another round of political and legal battles over the meaning of competition policy.

William Dawkins

Merger Powers Compared

Country	Bodies Responsible	Financial/Size Criteria	Voluntary Mandatory Notificatn	Max Fines	Ministerial Veto	Max time for investigation to open
Germany	Bundeskartellamt Min Econ	DM 500m sales (£157m) DM 2bn sales (£623m)	V M	DM1m plus 3 times profit from infringement	Yes	1 mth
UK	Office of Fair Trd; Monoplies & Mergers Com; DTI	£30m assets for co. plus 25% mkt share for new group	V	None	Yes	6 mths
France	Competition Council; Min. Ec.	FFr7bn (£652m) sales, of which two parties must have FFr2bn each or 25% market share for new group	V	5% sales	Yes	6 mths
Ireland	Min. Industry Examination of Restrictive Practises	I£5m (£4.2m) assets & I£10m (£8.4m) sales for 2 parties in deal	M	None	Yes	3 mths
EC	European Commission DGIV	Ecu2bn (£1.3bn) global sales - Ecu5bn til 1992 - Less than ⅔ sales in one member state; more than Ecu100m EC sales for one party	M	10% sales	No	1 mth

Nikki Tait looks at attempts to harmonise European bid practice

Implementation proves to be a minefield

ANYONE SEEKING a quintessential European issue would do well to alight on the matter of harmonising takeover practice between the European Community nations. The desirability of the aim may be broadly agreed. But practical implementation of the objective is nothing short of a minefield.

Essentially, the arguments raised as a result of the attempts to harmonise bid practice fall into two categories. On the one hand, there are the very broad issues which any extension of the "Anglo-Saxon" mould of financial practice inevitably provokes.

For example, does a ready market in corporate assets create economic and managerial efficiency? Or does it lead to unwelcome emphasis on short-term financial performance? Moreover, if the answer rests in some sort of compromise between the unfettered rule of the market and hefty corporate protection, where should the balance be struck?

On the other hand, there are the narrower, practical problems which deep-rooted cultural, regulatory and economic differences between the various countries pose.

An American mergers and acquisitions specialist well-versed in handling the problems of cross-border acquisitions in Europe sums up the problem neatly: "You've got the Dutch with their poison pills, the Germans with their banks, the French with their government agencies and the Italians with their cross-holdings," he commented. "Try to harmonise that."

Nevertheless, the pressures to move forward in some fashion are mounting. The recent publicity given to 1992 and its implications, plus the growing realisation that barriers are likely to ease if not vanish entirely, does appear to have stepped up the pace of European acquisition activity – in particular, the cross-border variety.

A common takeover code is seen to have only limited relevance

Precise measurement of this phenomenon is tricky. However, some recent figures from accountants KPMG – who helpfully try to track deals involving private companies as well as quoted ones – are indicative. They suggest that in the three months to the end of March, purchases by companies within the Community of other EC companies totalled $2.68bn. This compares with $1.55bn spent in the first quarter a year earlier.

Takeover Rules

Country	Main Regulatory Agency	Minimum Disclosure Level*
Belgium	Banking Commission	at 5%
France	Stock Exchange Council/ Commission des Operations des Bourse/Ministry of the Economy, Finance and Privatisation	at 5%
West Germany	No specific body, other than stock exchanges and a strong Federal Cartel Office	none
Italy	CONSOB (the Italian Commission for the Companies and the Stock Exchange)	none
Netherlands	The Merger Committee/ Stock Exchange	none
Spain	Syndic Councils of the Stock Exchanges	none, with some exceptions
UK	The Takeover Panel	5%, due to reduce to 3%

*for quoted companies; excludes some annual publication requirements

Moreover, in terms of number of acquisitions recorded, the figure goes up from 93 to 170. While the precise figures must be viewed with some scepticism, the scale of the advance is probably a fair guide.

"Measured in terms of numbers of deals," said the accountants, "the significant increase was in the middle market (under $100m), where EC purchasers turned away from North America, preferring to buy cross-border inside the EC."

"If this reversal of previous trends continues, it may provide proof that, as 1992 approaches, European companies are concentrating on strategic restructuring within Europe in preference to purchases outside the EC."

The pressure to lay down some strictures on how acquisition activity should be conducted is a practical one. To date, the most obvious initiative has come from the European Commission.

This takes the form of a "takeover directive" wending its way through the various Brussels-based bodies – with the likes of the Economic and Social Committee and the European Parliament taking a look. No final word on the directive from the European Council is expected until the end of June next year.

The main aim of this thirteenth directive was to set out some basic ground-rules which should be adopted in bids for EC companies. In many respects, it adopted the principles already delineated in the UK Takeover Code, by far the most sophisticated and developed takeover regulation within the Community.

The explanatory memorandum to the directive sought to fix a threshold, for example, at which there was an obligation to launch a takeover bid, "in order to guarantee the equal treatment of all shareholders" – and suggested 33.3 per cent of the equity as a suitable trigger point.

It also recommended that "in order to protect minority shareholders and to avoid purely speculative partial bids," the offeror must bid for all the shares in a company.

The directive leaves the question of reciprocity with non-EC companies entirely at the discretion of member countries

It called for a formal offer document, in which certain matters – such as the bidder's intentions towards the company, the use of its assets, the composition of the board, and its employees – would have to be spelt out.

There would be a defined period for acceptance, of not less than four weeks or more than 10, and an automatic extension of one week if a bid was revised.

If shares were bought by a bidder at a price above that which he was orginally offering, this would be considered a revision of the offer, and the higher price would be extended to all shareholders.

The directive, however, left the question of reciprocity with non-EC companies entirely at the discretion of member countries.

Instead, it suggested that given defensive measures which are "very widely used" in some member states, such a move at Community level would be premature.

"For the time being and until subsequent harmonisation, member states may introduce such a clause into their national law, bearing in mind their international commitments," it said.

On the thorny question of regulation, it suggested that rules are unlikely to be effective unless policed by an official regulatory body. That, coupled with the EC directive that would be binding on the UK Takeover Panel, provoked some worries in London that the Panel's rather unusual non-statutory status might again be threatened.

But overall the prevalent feeling – certainly among international investment banks and legal firms – is that this "common takeover code" has only limited immediate relevance while some very substantial unlevel playing fields remain between the different member countries.

"It could be a helpful move, but it will not solve some the basic barriers to bid activity," commented one London-based law firm.

In exemplifying the problems, it is difficult to know where to start. In West Germany or Holland, for example, the number of hostile bids can be counted on the fingers of one hand. In the Netherlands, in particular, the potential use of anti-takeover devices is a significant deterrent.

The techniques range from priority shares, which give the holders, usually foundations controlled by company managers, the main say in important decisions, through to non-voting certificates issued to common shareholders, whose voting rights are exercised by "administration offices" who usually side with management.

The issue cropped up with a vengeance in the domestic battle between Elsevier, the Dutch publisher and its target, Kluwer back in 1987, and provoked some moves to review and temper the use of these anti-takeover devices. But, for those who already have them in place, there is little sign of much early change.

Any quick extension of takeover fever looks unlikely

Some of the barriers to a ready market in corporate assets are less subtle still.

In Italy, the Netherlands and West Germany, for example, there is no threshold at which an acquisitive shareholder needs to declare his stake.

Add on the problem of "bearer shares" and the simple mechanics of establishing the shape of a company's share register becomes a bug task. Besides barriers like these, any quick extension of "Anglo Saxon" takeover fervour throughout the Community looks unlikely.

Who's who in the M&A business

Houses crowd in on the act

THE PROSPECT that 1992 will lead to a widescale restructuring of European industry has sent a thrill of anticipation through those people who make their living advising on mergers and acquisitions – chiefly the merchant and commercial banks. There is scarcely one of them that has not formed a special unit or department to think up bright ideas for – and transact – cross-border mergers. Even the Japanese banks, laggards in the M&A business, are showing strong interest.

However, all of them face two big questions:

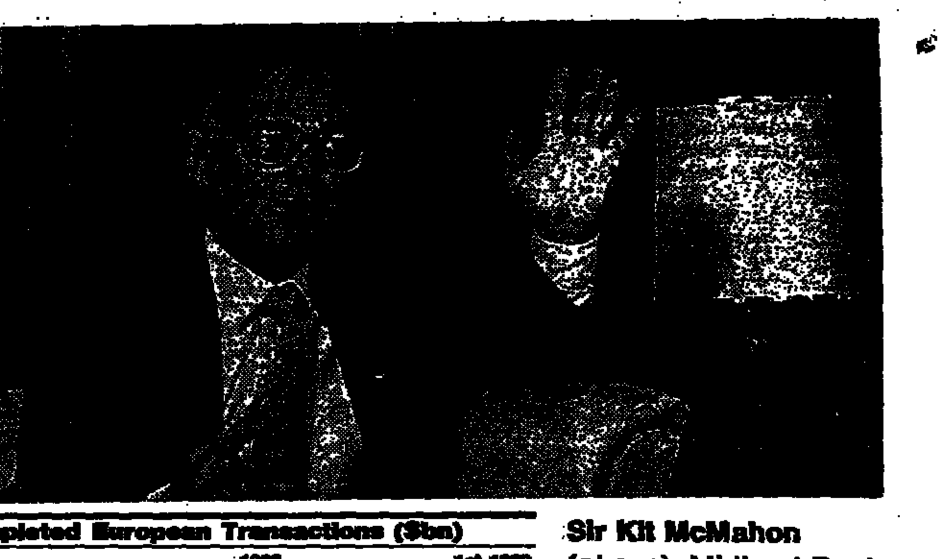
- Will 1992 actually meet the great expectations that have been built up for it? So far, the restructuring of Europe has been conspicuous more for the absence of big deals, though there are signs of life among smaller companies, and among big companies taking small stakes.
- Since so many houses are trying to get in on the European M&A act, how can any one of them differentiate themselves from the other? Do the EC-based houses have any advantage over non-EC houses, particularly in bringing outside companies into the market?

Most of the activity so far is based in London, traditionally the home of European M&A. But there are increasing signs of activity abroad, for example in France, where Crédit Commercial de France, the large commercial bank, has targeted the M&A business, and where the French arm of Lazards is a market leader.

"We do think 1992 will do something. We think that customers will need more pan-European service," says Sir Kit McMahon, the chairman of the Midland Bank, which has been building up its European merchant banking operations through stakes in local banks, such as Trinkaus & Burkhardt in Germany, and Euromobiliare in Italy. These will try to do deals alongside Midland's London merchant bank, Samuel Montagu.

Few of the top UK merchant banks are traditionally strong in Europe, having concentrated on the US and south-east Asian markets. But houses like Morgan Grenfell and Barings are all now claiming European expertise of one kind or another. Kleinwort Benson has focused on France and Warburg has just added a Spanish office to its European network. Hambros has taken the process one stage further by joining a network of six banks in Italy, Spain, Portugal, Germany, Belgium and Denmark. Although it was slow to get started, Hambros' European M&A unit made its first profit – of £1m – last year and is now paying its way, according to Mr Chips Keswick, the chief executive.

Hill Samuel has tried a different tack: it has formed alliances with small but entrepreneurial investment banking and venture capital companies dotted around Europe, aiming at the smaller end of the corporate market. Hill Samuel takes the view that there will not be many mega-mergers because the large companies are not available, but there will be a lot of reshuffling lower down.



Sir Kit McMahon (*above*), Midland Bank chairman: 'We do think 1992 will do something. We think that customers will need more pan-European services'

Completed European Transactions ($bn)

	1988	1st 1989
First Boston	22.9	8.8
Goldman Sachs	22.0	0.8
Shearson Lehman	15.9	8.4
S.G.Warburg	14.0	6.1
Morgan Stanley	13.1	7.1
N.M. Rothschild	12.5	-
County NatWest	11.0	-
Schroders	10.6	-
Kleinwort Benson	-	6.2
Wasserstein Perella	-	5.9
Drexel Burnham	-	5.7

Includes transactions valued at or above $50m in which at least one company is European

Source: Morgan Stanley

In Japan a combination of growing Japanese interest in the science of corporate finance, and the Japanese corporate community's eagerness to be established in the EC by 1992, has prompted Japanese institutions to set up their own M&A departments.

Nikko Securities Europe is among them. Mr Yuji Shirakawa, the chairman, says that the predominant approach of Japanese companies will be to buy small stakes in European companies, and then enlarge them as they become more familiar with the market. Daiwa Securities has sought alliances with European institutions to handle cross-border deals. It has an agreement with Crédit Agricole, France's largest bank, and an Italian unit, IFIL, which is controlled by the Agnelli family.

The problem is to differentiate one from the other

Among the Americans, the most conspicuous have been the leading investment banks including Shearson Lehman, Morgan Stanley, Goldman Sachs, Salomon and First Boston, all of whom specialise both in intra-European and transatlantic dealmaking.

Mr Simon Orme, the head of international M&A at Morgan Stanley (which claims to have done the largest amount of European deals in the first quarter of this year) believes that US houses have an advantage in that they are not rooted in one particular European state. "It is easier for a US bank to deal with pan-European issues," he says.

Morgan Stanley now has 34 professionals handling European M&A based in London, its "action centre". Most other US investment banks also centre their operations in the UK, and serve local markets either by travelling or opening branches. But Kidder Peabody, the subsidiary of General Electric, has a strategy of forming alliances with continental merchant banks, such as SOPAF of Italy. The recent cooperation agreement between Salomon and Istituto San Paolo di Torino was also indicative of this trend.

Whether the Americans will actually reap the advantage they claim is, of course, disputed by the Europeans. "It's a mistake to see Europe as a single market-place," argues Mr Adam Broadbent, head of corporate finance at Schroders, a merchant bank which is advising on one of the classic 1992 deals: Crédit Lyonnais' acquisition of Credito Bergamasco in Italy.

Mr Broadbent maintains that each EC market will continue to have strong local characteristics, and this will force corporate finance houses to locate offices in countries where they want to develop their business.

The Japanese dimension is more specialised. The acquisition by Bank of Yokohama of Guinness Mahon, the London merchant bank, was made partly with an eye on securing a place in the EC market, but also to facilitate Japanese-EC deals. "We shall be the prime contact point for companies dealing with Japan," says Geoffrey Bell, Guinness Mahon's chairman, who also foresees rising Japanese acquisitions in Europe.

There are two principal ways in which bankers are trying to make themselves distinctive to their clients: one is by touting their knowledge and contacts in particular markets; the other is through their reputation as astute dealmakers. Mr Orme at Morgan Stanley predicts that the EC M&A business will not only become more voluminous, but also more aggressive as markets open up. He foresees more hostile bids on the Continent, and the spread of leveraged buy-outs. Companies will also handle their resources more aggressively, for instance by gearing up on their real estate. All this will require top class financial advice.

Union Bank of Switzerland also hopes to use its European network of contacts to win corporate advisory and financing work. Mr Stephen Brisby, the vice chairman in charge of corporate finance at its London-based investment bank, UBS Phillips & Drew, sees particular scope in the mid-size sector where UBS has exclusive sale mandates for continental companies and holds controlled auctions.

"There's a lot of restructuring about to begin," he says.

David Lascelles

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BANKING

Lure of cross-selling

GERMAN BANKS have traditionally enjoyed far greater freedom than their competitors *elsewhere* in Europe to cross functional boundaries within the financial *services sector*. Does this mean that the German universal banking model will become the *norm in the* brave new single European market?

It is tempting to assume so, given that the Community's new Banking Directive will remove the remaining regulatory boundaries in Europe to universal banking. In due course, all financial institutions in the Community will, as the Germans and Swiss have done for decades, be permitted to run deposit-taking and lending functions in tandem with securities and fund management business. Yet experience in the 1980s suggests that the universal banking model is not one that is easily exported.

In London, where Big Bang opened the way for banks to broke and make markets in domestic equities and gilts, most institutions with strategies based on being all things to all men subsequently had

Elbowing aside the giants

cause to re-think. Losses or below average returns are still the order of the day in the new liberalised environment. British, American and French and even Swiss commercial banks that hoped to exploit the new *opportunities to conduct* securities business in London vary in the degree of frankness with which they admit to having shot themselves in the foot. But their experience, and that of most other players in London, is a salutary reminder that, while the banking systems of West Germany and Switzerland are liberal, in the sense that there are few regulatory boundaries based on function, their profitability has been buttressed by cartels and restrictive practices.

The 1992 process is bound to mean *that German banking* will be subjected to more competitive pressure. And the universal *banking model, with its* emphasis on long-term lending and equity stake holding in industry, is, anyway, in flux. The Bank for International Settlements' new rules on capital adequacy penalise large (and thus relatively illiquid) bank holdings of equity shares, so adding to existing pressure from politicians to divest.

A senior executive of one of the big three banks in Frankfurt detects a seachange, arguing that while the banks have always thought in volume terms, and ignored the bottom line, they are now being forced to think again as their margins come under increasing pressure. *So, too, he adds*, with fund management, which has not been performance oriented.

Such attitudes will be harder to sustain in a single market.

If there is a characteristic model for European finance in the 1990s, it may well have more to do with conglomeration in retail financial services than anything that goes on in the sophisticated securities markets in London or the very corporate minded banking system in the Federal Republic. For the most striking fashion in financial diversification is the *move by insurers* into banking and vice versa.

Here the French are in the vanguard, *and the pioneering* is being done with the blessing of the government. Groupe des Assurances Nationales *(GAN)*, the smallest of the three state-owned insurers, this year took a controlling *stake in the public* sector banking group Crédit Industriel & Commercial (CIC). The logic lies *partly in the capital*-rich insurance company helping CIC meet tough new capital adequacy ratios. *In* another all-public sector deal the country's biggest insurer, Union des *Assurances de Paris*, has established cross-shareholdings with Banque Nationale de Paris, *to cement* a relationship that involves cross-selling of products.

The *potential for selling* insurance products through bank branches has been most dramatically *illustrated in a* move from banking into insurance by Crédit Agricole, *France's biggest (and mutually* owned) retail bank. In the space of three years its newly-*founded insurance subsidiary* has rocketed to number two in the country's life assurance league table and to number six in the insurance industry.

There are remarkable similarities here with another retail bank with a less than dynamic reputation, this time in Britain. For some time the Trustee Savings Bank has been elbowing aside the giants of the insurance industry in a profitable march up the league tables. The lesson has not been lost on the Big Four British clearing banks, whose insurance operations have been expanding fast from a low base. Or, indeed, on some *insurers: while the authorities* have traditionally frowned on bank-insurance mergers, this *did not prevent the big Scot*tish mutual group Standard Life from taking a minority *stake in Bank of Scotland*, which now exclusively markets Standard Life's products.

The trend is equally *apparent* in West Germany, where the Aachener und Münchener insurance group bought a controlling stake in Bank für Gemeinwirtschaft in 1987. But here the focus of all attention is on the battle between the two titans of the respective industries. After years of deliberation Deutsche Bank has finally started to sell insurance products, while Allianz is returning the favour, having fired an early warning shot with the acquisition of 23 per cent of Bayerische Hypotheken und Wechsel Bank in 1986. It now has a marketing agreement with Dresdner Bank. And, in the Netherlands, the third largest insurer, Amev, is swapping share stakes with the biggest Dutch savings bank, Verenigde Spaarbank.

Everywhere the search is on not for the depositor's or policyholder's franc but for the *saver's franc, pound or* D-mark. The intriguing question is how far the search will *cross national boundaries*. Outright takeovers of banks by insurers are likely to be rare: *even in Britain, which is relatively* liberal on foreign takeovers, the Governor of the *Bank of England, Mr Robin* Leigh-Pemberton, has made it clear that foreign takeovers of *clearing banks are unlikely to* be welcome. In Italy Professor Romano Prodi, head of the *state holding company IRI*, which owns a huge chunk of Italian banking, argues that *there will ultimately be a wave* of takeovers in European banking, but on the basis only of *reciprocity. In the meantime*, down payments, in the form of minority stakes in Italian banks, are acceptable.

How far the risks have been assessed is another matter

That indeed has been happening. Allianz, through its recently acquired subsidiary *Riunione Adriatica di Sicurta*, has been nibbling away at the Italian banking sector and *recently attracted headlines in* Spain with its purchase of a small stake in Banco Popular; the Spanish bank will market Allianz products through its branches. In a rather different permutation, Istituto San Paolo di Torino has teamed up with Britain's Guardian Royal Exchange in a joint venture to buy three Rome-based insurers. Assurances Générales de France, meantime, earlier this year bought 5 per cent of Spain's Banco Atlantico.

How far the risks have been properly assessed is another *matter*. Insurance is a capital-hungry business and banks are heavily dependent on their *depositors' confidence*. If one or other runs into trouble there is a risk of cross-infection. *Those who have been* mesmerised by the cross-selling potential in insurance and banking *would do well to* consider the experience of Allied Irish Banks with its acquisition of the Insurance Corporation of Ireland in 1983. After incurring huge losses in the following two years, the insurance company had to be rescued by the Irish government to prevent serious damage to the banking parent. Such upsets, though not necessarily on the same scale, may well recur in the choppier climate of the liberalised single market.

Jon Plender

David Buchan looks at progress towards a single legal and fiscal framework

Obstacles to the European company

Mr Bangemann (*left*), will try personally to win Mrs Thatcher over

THERE IS renewed interest, but still pitifully little progress, in creating a common Community legal and fiscal framework for European companies.

The reasons for the increased interest in this area, at least in Brussels, are not hard to guess. Whatever the success, so far, of the 1992 programme in breaking down barriers to trade, it remains clear that an average European company cannot operate in the single legal or fiscal environment that its Japanese or even US competitors enjoy in their home bases.

The European Commission admits that its earlier drive to harmonise member states' *company law (which was quite* successful in making accounting practice and publication *more uniform) ran out of* steam some time ago.

Some Commission officials *also feel that the heavy Com*munity investment in cross-border technology research programmes (such as Esprit, Race, Brite) may not produce the proper pay-off for lack of sufficient pan-European companies. Ironically, business sees part of this problem as lying in the Commission anti-trust rules. As a senior Philips lawyer recently complained, the Brussels trust-busters will not permit research and development agreements in which the partners agree to exploit the results of their joint R&D in certain limited markets only. But, as the lawyer noted, companies often feel they must have such carve-ups to avoid the risk that "by co-operating they will create new competitors on their own product mar*kets*".

However, there is clearly a rising trend of mergers and *acquisitions*, though, *so far*, resulting more in purely national concentrations rather than in cross-frontier, pan-European companies. There is thus a desire, at least among the Brussels bureaucrats, to

An EC code of conduct has been proposed for takeovers

put some order into the takeover trend. It has proposed an EC code of conduct for takeovers. It has also inserted into a raft of company law proposals measures aimed at protecting the rights of workers in the events of takeovers or mergers.

Most prominent among these proposals is the revived plan for a European Company Statute (ECS). *The aim of this idea*, which has been hanging around for some 20 years, is *that* any company which chooses to incorporate itself under such a statute would be set free of member states' company laws, though not taxes. In the Commission's view, it would not only be a remedy for the lack of harmonisation of national company laws among the Twelve, but would create the right psychological vehicle for cross-border mergers, since national sensitivities would not suffer if two companies merged themselves into a "European" business.

The chief obstacle to the ECS ever getting the approval of EC governments, now as before, is the worker participation provisions. These appear to have broad support from most governments, and from a majority in the European Parliament – which will be even larger after the recent left wing electoral gains there. But the bedrock of support comes from West Germany. Bonn has always insisted that no EC measure aimed at facilitating mergers or takeovers can be allowed to let German management escape entirely from the obligations of the Federal Republic's highly-structured co-determination, which puts workers *on the boards of* all medium to large German companies.

This is, of course, anathema to the present UK government which believes in workers owning shares rather than participating in management. Mr Martin Bangemann, the EC Commissioner responsible for company law (though not tax) matters, is holding fire on his ECS proposal until he has had a chance to try to win Mrs Margaret Thatcher, the British Prime Minister, over personally. There is a very outside chance that he might succeed, given that the ECS is only an option for companies – none need adopt it – and those that do would have a choice of forms of worker participation. However, the issue is complicated by the broader row between the Commission and the UK over the former's planned social charter of workers' rights that would include *worker participation*.

The German *Mitbestimmung* (co-determination) law applies to companies with more than 500 workers. Precisely because of this, Bonn was able to join other EC governments back in 1985 in agreeing to something called the European Economic Interest Grouping (EEIG), a legal framework for cross-border joint ventures employing fewer than 500 people, without demanding any worker participation element. From July 1 this year setting up an EEIG becomes theoretically possible in all 12 countries, but this depends on national implementing legislation which only a minority of member states have yet passed.

Because of the limitation on its size (which was crucial to its very creation), the EEIG may not be very widely used. *But several consortia, particu*larly in the service area, have already expressed interest. They include the big European television companies, such as *Philips and Thomson*, which have already formed themselves into an "economic interest grouping" in France (which has been the model for the EC plan), for the promotion of high definition television.

The key to exciting business interest in the ECS idea lies in its proposed tax provision. Under this, parent companies would be allowed to deduct the losses from any branch in another EC state from their *taxable income at home – just* as companies can generally consolidate the profit and loss of branches within a *single* country. Whether, however, governments are ready to surrender any part of their tax sovereignty is highly doubtful. There is also a serious question of whether the ECS should have a special fiscal carrot like this, or whether such loss consolidation should not be extended to all businesses.

The Commission has tried this year, so far without success, to revive ministerial interest in passing three company tax measures dating from the late 1960s and mid-1970s. One of these would postpone *the levying of capital gains tax* on the assets of a company being absorbed by a second company in *another member* state. At present, because governments refuse to allow companies to *leave their jurisdic*tion without hitting them for capital gains, true cross-border mergers are very expensive. The Commission plan would register the tax liability of the company *being acquired* but defer actual payment until its assets were eventually realised (through de-merger or liquidation).

Two double taxation proposals are *equally stalled*. One would require EC tax authorities to accept binding arbitration in the event of a dispute between them about transfer pricing, and the tax implications, within a multinational

Worker participation rules are anathema to the UK government

straddling their borders. The other would abolish withholding taxes on dividends paid by a subsidiary in one EC state to its parents in *another EC state*. However, these are the sort of fiscal wrinkles that need to be *ironed out if the Community* is ever going to be a real single market.

FINANCIAL INFORMATION

Where knowledge is power

MARKETS FOR capital, like those for anything else, do not work *well without* adequate information. And in Europe, at the moment, the ideal of full and comparable *information* is far from being achieved.

The disharmony in Europe's national accounting systems shows through most clearly in the presentation of financial information. The same *financial* events lead to very different reported results under different accounting conven*tions*.

This was well documented in a survey from Touche Ross last month. Touche took a *model* company and recast its financial results in the accounting languages of a number of European countries.

Not surprisingly, the "bottom line" which *would be* achieved under each convention differed greatly. Net profits ranged from just over Ecu130m (£88m) for Spain, Germany and Belgium, to Ecu192m in the UK, with France, Italy and the Netherlands in between.

More interesting is what happened when alternative *accounting treatments*, allowed in each country, are applied. The Belgium and Spanish "profits" could be jacked up to almost the same level as those shown in the UK, after a little judicious use of each *country's* accounting systems.

The German profits, on the other hand, could not be *lifted* far, but could be lowered dramatically. At a pinch, the German company could have come up with profits for the year of just Ecu27m. This sensitivity analysis shows the full extent of the problem.

The question being asked in some quarters is whether any of this matters. The problem is not presentation but disclosure, say many analysts. What matters is not the bottom line, but the amount *of* information available to help the reader understand the bottom line.

This view holds *some* water. Joint author of the Touche study, Mr Andy Simmonds, says that Royal Dutch/ Shell reported a fall in profits in 1987 but an increase in 1988: with a different treatment of its deferred tax charge, this picture would have been reversed.

The very fact that Mr Simmonds was able to make this observation shows that the company disclosed enough in the notes to its accounts to help readers reach their own conclusions. However, not everyone believes that the people who drive share prices read the small print and make these

What matters is not the bottom line, but the amount of information available to help the reader understand the bottom line

mental adjustments.

Whatever the pros and cons of the argument, the real prob*lem comes* when there is no information to enable a company's accounts to be deconstructed. In areas like depreciation policy or stock valuation, there is often no way of comparing companies.

These differences throw up a number of problems as the European Community moves closer to the free movement of capital:

- Investors may find it difficult to make informed comparisons between companies based in different countries. It will also be difficult for companies *wanting* to acquire, form joint ventures with or grant credit to companies elsewhere in the *Community*: they will have no standard yardsticks with which to form their opinions.
- Some *investors* have access to information not available to the market as a whole, and so are at a competitive advantage. German banks are an obvious example. Sitting on the boards of companies in which they have invested gives them access to management accounts, while outsiders have to put up with a low level of published information by international standards. This hinders outsiders: it makes it more difficult for foreign banks to break into the German corporate lending market, for instance. This problem is not solely one of accounting, but is a product of the different financial cultures around Europe.
- At a practical level, differences of accounting are a costly annoyance for companies wanting to raise capital abroad. They must recast their figures in the language of each country where they want to raise capital publicly.

The EC has already done much to tackle these issues. Its fourth directive (on the form and content of company accounts) and seventh directive (on consolidated accounts) have led to considerable stan*dardisation in general terms*. The problem is how to make the next step, to the more detailed accounting rules without which true standardisation cannot be achieved.

The directive-based approach of recent years would not achieve the necessary results. It takes years for directives to be agreed and enacted in member states – far too long given the pace of innovation in financial markets. The fourth direc*tive, a draft of which was pro*duced more than 20 years ago, is still not part of national law *in some countries*.

Many accountants fear that the European Commission will seek, *instead, to establish* a European accounting standards board, with the power to make accounting rules in much the same way as the Accounting Standards Committee in the UK and the Financial Accounting Standards Board in the US.

Opposition to the idea of European accounting rules was expressed most forcefully recently by Mr Hermann Nordemann, president of the Fédération des Experts Comptables Européens, the representative of Europe's leading accountancy bodies. There is no place for European rules, he said: only truly international ones, which are recognised in New York as well as London or Paris, will do. Otherwise, Europe will become an "accounting ghetto".

Mr Nordemann has thrown the FEE's weight behind the International Accounting Standards Committee (IASC), which is currently trying to hammer together a set of accounting standards which are acceptable to all the major stock markets around the world.

However, two things may prompt the Commission to go against FEE's wishes and act *in its own right. First*, the IASC solution could take years. Its approach, of seeking con*sensus around the world, is* likely to be a slow one. The Commission may decide that the internal market will be harmed without adequate attention to this area, and so attempt a faster solution itself.

Second, the consensus approach to accounting rules is well tried in countries like the UK and US, but is less familiar in continental Europe, where accounting often follows tax law. The Commission may pre*fer a system with legal back*ing, under its own control, to one which is produced by an international *grouping of* accountants.

Whichever way it goes, the Commission will *have to make* its mind up soon if Europe is to have a truly free capital market.

Richard Waters

Competition hots up between financial centres

Continued from Page 1

continental Europe," with the backing of local and central government, the central bank and a wide range of practitioners and professions. But how ambitious can a relatively small place like Amsterdam hope to be?

Paris, once a financial backwater, has made great efforts to modernise itself, reflecting the ability of the French to unite in pursuit of a clearly-identified national goal. As well as the reform of the stock exchange, easing of foreign exchange controls and partial privatisation of the banking system, it has included acceptance of the dominance of the Anglo-Saxon culture in international finance.

The implications of these changes reach beyond the EC to neighbouring countries. Their hopes and fears can be illustrated in two further examples.

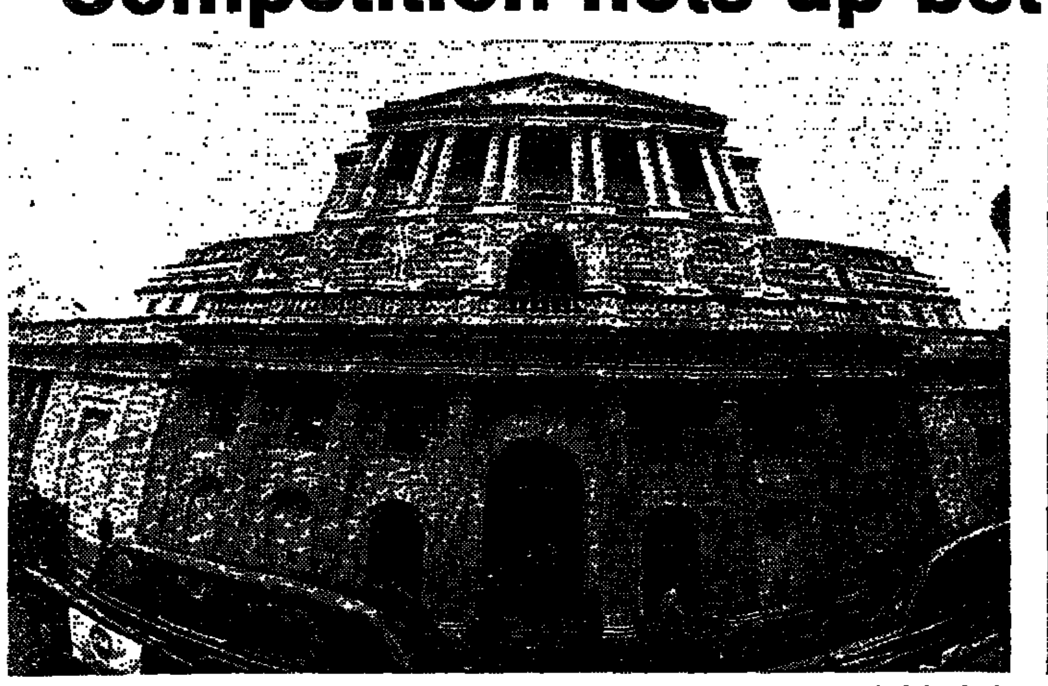
Zurich, centre of the highly regarded Swiss universal banking industry, and possible haven for business driven out of the EC by internal harmonisation. But it is highly taxed, cartelised and short of skills, and suffers from fears that business will actually move in the opposite direction – into the EC.

What future is there for a small, regional financial centre outside the EC, such as Stockholm? Although the Swedes have taken large strides to deregulate their financial sector and introduce the most modern trading systems, doubts about its future are adding the financial sectors voice to calls for Sweden to join the EC.

Given that the creation of a single market should iron out the most important regulatory differences between financial centres, the considerations that will shape the future are more likely to depend on how efficient individual centres are, and how much expertise they can muster.

On the securities side, stock exchanges almost everywhere have proved to be highly conservative institutions which cling to their privileges, so the pace of change varies widely.

Although London was first to embark on large reforms with the Big Bang in 1986, it has encountered problems since then which have given fresh heart to continental centres. Excessive regulation, high costs, gross over-capacity and, most recently, new rules which have, in many people's opinion, reduced the transparency of the London market and made it less attractive.



The Bank of England has played a leading role in promoting the City's interests in Whitehall

Frankfurt Stock Exchange: debate continues about the unification of regional stock exchanges

This, along with improvements carried out in continental exchanges, has made some of the trading that was done in London of continental stocks and bonds migrate back to their domestic markets.

The distance that this process can go is still limited by the absence of needed reforms in continental exchanges. The quality of research and the sophistication of institutional investors are other factors that come into play. In West Germany, the long-running debate about the need to unify the country's eight regional stock exchanges in Frankfurt has, so far, produced little in the way of change.

Furthermore, the absence in West Germany of a large fund management industry, due largely to the different way West German companies fund their pensions, means that the securities industry that is independent of the big banks is very small, as is the amount of research that is done.

The West German financial system has served the country well, but will it always do so? "You can't continue to have a highly developed industry with a less-developed stock market," says Mr Michael Hauck, the former president of the Frankfurt stock exchange.

Volume of Trading in Equities (US$bn)

	UK	W Germany	France	Neth	Italy	Spain
1983	42.58	38.88	12.53	10.50	3.87	0.96
1984	48.28	35.46	10.15	12.46	4.05	1.78
1985	76.36	94.21	19.82	19.99	15.35	3.16
1986	113.00	130.33	47.60	28.06	38.35	10.71
1987*	516.88	472.29	86.86	39.32	32.38	29.93
1988*	360.98	407.93	69.28	30.69	31.71	20.83

*Customer and inter-market business

Source: FIBV

Sir Leon Brittan (*left*): 'It's not so much a matter of what London does, but what happens in other centres'

Mr Roelof Nelissen, (*right*) chairman of Amro Bank, is optimistic: 'I think we have created a sense of urgency'

Much more progress has been made in France, where modernisation of the stock exchange has encouraged foreign houses like Barclays and Warburg to buy member firms and become leading dealers in French stocks.

"The French have been converted to the market," says Mr Guillaume Lejoindre, managing director of capital markets at Indosuez, one of the French banks which has decided not to transfer the bulk of its international securities operations to London.

Even in Paris, some observers doubt the willingness of the big banks to yield up their traditional hold on the securities business and allow genuine competition.

There are difficulties getting into the issuing syndicates. "People are not as united here as you might think about the need to make Paris a major financial centre. In many ways, it's still a cosy club," says one foreign banker.

Similarly in Italy, efforts to open up the Milan stock exchange have been resisted by the big banks, and companies have been discouraged from listing their stocks.

In Amsterdam, the stock exchange is determined to maintain a strong central trading floor as a focus for Dutch stocks, according to its president Baron van Ittersum. But plans to improve the trading system have encountered resistance from the jobbers, and quaint practices, such as anti-takeover barriers, remain.

The need for consensus between government and the financial services industry is also emerging as a factor in the prospects for financial centres, particularly on matters of tax and regulation.

The decision earlier this year by the Bonn government to introduce a withholding tax without consulting Frankfurt was seen as a blow to the West German investment industry. Although the proposal has now been withdrawn, it highlighted the gulf between politicians and practitioners.

Furthermore, the Bundesbank does not see it as its role to promote Frankfurt, and it stands aloof from much of the debate, except insofar as technical controls over trading D-Mark denominated bonds is concerned.

By contrast, the Dutch authorities have got closely involved in trying to promote Amsterdam. The central bank is behind the initiative, and the government pledged to cut stamp duty (though the government fell and the new government has yet to say what it will do).

Mr Roelof Nelissen, the chairman of Amro Bank, Holland's biggest securities dealer, is optimistic: "I think we have created a sense of urgency."

A reasonably high degree of consensus is also seen as one of London's greatest strengths. Traditionally, governments of all hues have respected the City's value as a national asset, and the Bank of England has played a leading role in promoting its interests in Whitehall, and internationally.

In a study which the Bank made earlier this year of London's prospects as a financial centre, it concluded that the breadth and depth of the financial services presence was such that it was not under any immediate threat. But there might be a loss of non-UK securities trading as other centres deregulated.

Commodity-type services, particularly in the wholesale money and securities markets, which depended on no particular expertise or location, might also seek out other homes, where it was cheaper or more convenient to do business.

A development which could have a highly symbolic influence on the shape of the European market will be the location of a future European central bank.

Sir George Blunden, deputy governor of the Bank of England, recently made a strong pitch for it on the grounds that London was the natural place for its operational centre. The policy-making arm, like the US Federal Reserve System, could be elsewhere. Whether the French or the West Germans would permit that remains to be seen. Amsterdam has hopes of being chosen as the compromise location.

Whatever changes occur they seem unlikely to alter Europe's basic financial structure, with London's breadth and depth ensuring its continued dominance of the time zone, with other centres serving a regional role.

This is to some extent recognised. Paris, for example, sees its main competitor for the place of "leading continental centre" not in London but in Frankfurt.

Future issues which could change the picture include the influence of a common currency. If it is D-Mark based, will that raise the importance of West German markets?

If the continental universal banking culture prevails (and the new Banking Directive favours it) could that undermine the Anglo-Saxon culture where functions are traditionally more separate? And if communications technology renders geography irrelevant, will business relocate to the most congenial surroundings?

Answers to these questions may not come until the next century.

David Lascelles

Bernie Cornfeld: his shadow still hangs over the German scene

Investment-related services

Security counts for everything

EUROPE'S national markets for investment-related financial services are divided by much more than just boundaries. They are separated by culture, taxation and history.

From the end of 1992, life insurance companies and other financial groups will, in theory, be free to sell their products throughout the community. Mutual fund managers, in fact, will be able to sell certain products freely as soon as October this year, under separate legislation for Ucits (Undertakings for Collective Investment in Transferable Securities).

But being given legal authorisation is one thing, finding sales outlets could be quite another. "I don't think 1992 is going to be an instant event," says Mr Keith Bedell-Pearce, marketing director of Prudential Assurance.

Certainly, a Bank of England report published last month on preparations by the UK's financial services industry for 1992 concluded that a community-wide market for retail financial services would be slow to develop.

An opinion survey conducted by the Bank suggested that a spate of cross-border acquisitions was unlikely. However, second-tier institutions might merge for defensive reasons, and these mergers might often be within the same country.

Germany is the country that perplexes investment institutions throughout the rest of the EC. It is potentially the biggest and richest investment market, heavily populated with well-off ageing savers. But the market is almost completely controlled by a small number of banks, with some closely-associated life insurance groups. Breaking into this ring, or somehow by-passing it, promises to be hazardous and expensive.

The long shadow of Bernie Cornfeld, moreover, still hangs over the German scene. At its peak in 1969, IOS (Investors Overseas Services) was selling offshore funds at the rate of $150m a month into Germany – almost half its total sales volume. But Bundestag legislation rushed through in June 1969 effectively cut off the German market from subsequent foreign intruders, however legitimate.

Domestically, regulation in Germany is heavy-handed. Security counts for everything, innovation for little or nothing – in fact, it may be seen as positively dangerous. The investor will not lose his savings, but neither is he likely to receive value for money.

In Britain, by way of contrast, many of the domestic savings institutions feel open to attack. There is an almost unique emphasis on independent intermediaries, and a great deal of direct selling. The banks and building societies are trying to develop their business, but still have a comparatively small share, except perhaps in mortgage-related savings plans.

Determined foreign institutions can, therefore, invade the UK market through a ready-made independent distribution network, though in the past more have done so from the US, Canada and Australia than from the Continent. That could now change.

Elsewhere, the picture varies considerably. The Bank of England survey indicated that most UK institutions are initially targeting France, Italy and Spain because of size and wealth or, in Spain's case, growth potential.

Although truly independent intermediaries are absent in most countries, some, such as France and the Netherlands, permit direct mail and telephone selling. On the other hand, in Portugal only depository banks are allowed to sell Ucits. The only way to get into the Portuguese market is, therefore, to do a deal with a bank, on terms which are obviously unlikely to be worthwhile.

However, the advantages and disadvantages can balance up. Uncompetitive German life contracts and dull bond funds will never find a market in Britain. But British flair and innovation might create an impact in Germany, if only they could ever find a way in. British expertise in personal pensions, for instance, is at this stage irrelevant in other EC member states other than Spain, but demographic pressures could well prompt a more general change in attitudes on the Continent on retirement provision.

Life Premiums as % of GNP (1986)

Country	Percentage
France	1.8
W Germany	2.5
Italy	0.4
Neth	2.7
Spain	0.5
UK	5.0

Source: Prudential Corp.

All over the European Community, those involved in financial marketing are poring over 1992 strategies. What are the alternatives? Takeovers are an expensive option, although the scope is limited in most countries. An exception is the UK, where Compagnie du Midi's acquisition last year of Equity & Law, a leading life office, was an example of 1992 in action.

London is a repository, in particular, of global fund management skills. So last year, too, Dresdner Bank took over Thornton, the unit trust group, and more recently the French bank Société Générale has acquired Touche Remnant. By such deals, not only will the Continental institutions gain footholds in the UK market, but they will be able to offer competitive products at home through their domestic networks.

For smaller British fund managers, the alternative is to do deals with Continental banks. For instance, Wardley in London has signed up to manage portfolios for institutions in Spain, France and elsewhere. In some cases, its own funds are being marketed initially, although with the expectation that local products will be launched when demand has been stimulated.

"They have the distribution," says Lord Buckinghamshire, Wardley's chairman. "We don't see any point in trying to compete on the distribution method."

This could be useful business while it lasts, but the external manager role is fundamentally an insecure one: as soon as the Continental bank has developed its own skills it will want to take the business back in-house.

What other strategies are being followed? Well, there is the Luxembourg option. Queues of institutions, including many from Britain, have formed to set up Luxembourg-based Ucits, which have certain advantages such as freedom from withholding taxes, and greater consumer acceptability in some countries. But France is in the vanguard of attempts by Brussels to impose tax harmonisation on Luxembourg. And a Luxembourg base does not really provide any real answer to the Community-wide marketing problems.

Another possibility is to set up loose groupings. Last month nine European insurance companies, including TSB Trust Company of the UK, established NEXO. This is described as an information sharing and technical exchange network, possibly leading to commercial projects, which could include the launch of a joint Sicav, or mutual fund.

According to the TSB's Martin Broadway, this was originally a French initiative, and has developed over six months or so. It will start with the life sector, and will then extend to general insurance.

Then there is the joint venture approach. An excellent example of this was the move by Prudential Assurance of the UK and Benetton of Italy to set up Prudential Vita in 1988. The Pru could supply the insurance expertise, while Benetton was able to offer an innovative distribution channel.

Keith Bedell-Pearce of the Pru reckons that the demand for financial products in many member states is much the same. So why are there such big differences in the markets? "In a lot of the EC countries the provision of financial services is still primarily product-rather than market-driven," he says.

To a large extent, this is caused by regulatory differences. German insurance regulations determine not just that insurers must be fit and proper, and solvent, but also that they must charge certain levels of premiums and invest in particular assets.

There is plainly a long way to go before such regulatory variations are ironed out. But, in due course, once the frontier barriers are brought down, the good regulation will start driving out the bad, as customers for financial services begin to realise that they can get a better deal in another country.

Barry Riley

Patrick Harverson looks at equity research departments

A weapon in the battle

THE BUSINESS of researching European equities is enjoying something of a renaissance. Demand from UK and overseas institutions for European equities is such that international banks and securities houses are fast expanding their European research departments, both in the numbers of markets and stocks covered, and the numbers of analysts employed.

Behind the growing investor interest in European equities are a variety of factors. The consistently strong performance of the continental European markets has attracted the attention of fund managers searching for new profit opportunities while the UK market languishes. The approaching unification of European markets in 1992 highlights the potential for joint ventures and mergers which require greater information on European industries and companies.

The widespread deregulation of financial markets throughout the Continent has improved access to European equities, while the growth in trading on the London Stock Exchange's Seaq international system has stimulated interest in a far wider range of European stocks among international investors.

All the big firms accept that equity research departments are an important weapon in the battle to win a slice of this fast-expanding market, which in London, alone, sees roughly £40bn-worth of shares turned over in one year.

Considerable amounts of money and time has been spent in the past two years on building up research facilities to meet the demand from investors for information on European equities.

Most houses now cover the leading stocks in seven countries: West Germany, France, Switzerland, Italy, Netherlands, Sweden and Norway. A growing number offer research on Spain, Finland and Denmark, while several provide coverage of more outlying markets such as Austria, Portugal and Greece. Analysts, previously counted on the fingers of one hand, now number in the teens, while most firms worth their salt claim to research several hundred European stocks.

However, there is a problem over what firms mean by "coverage". As some European fund managers find to their cost, a broker that claims to cover several hundred European stocks can often supply full analysis of only blue chip issues, while research on others, particularly second-line stocks, is sketchy at best, and non-existent at worst.

A quick straw poll among European fund managers found that while most were satisfied with the quality of research on leading stocks in the big continental markets, they were unhappy about the lack of coverage of second-line stocks.

Top 10 London-based Firms Researching Continental European Equities*

	Stocks	Markets	Analysts
Barclays de Zoete Wedd	228	7	26
BNP Securities	175	12	13
James Capel	240	10	27
County NatWest	350	9	20
Hoare Govett	300	13	12
Kleinwort Benson	353	12	15
Smith New Court	350	6	8
Swiss Bank Corporation	200	7	12
UBS Phillips & Drew	200	12	17
Warburg Securities	521	11	14

*In alphabetical order, in terms of numbers of stocks and markets researched and analysts employed

One such fund manager is Mr Michael Woodward of Edinburgh-based Ivory & Sime, who commented: "The amount of time and resources devoted to researching smaller companies in Europe is still pitiful."

Mr Woodward's thoughts are echoed by another European fund manager, who said: "Coverage of Europe is still relatively modest with too many firms covering the same stocks. London houses will usually only look at one or two second-liners, yet this is precisely the area where there's outperformance and where we want to invest."

A quick straw poll among European fund managers found that most were satisfied with the quality of research on leading stocks in the big continental markets. *However, they were* unhappy about the lack of coverage of second-line stocks, where research can be, at best, sketchy

This lack of coverage of second-line stocks forces fund managers like Michael Woodward into the arms of the smaller continental broking houses such as Germany's Bankhaus Reuschel, or France's Rondeleux.

These, often independent, brokers, may lack the ability to provide a comprehensive analysis of national and pan-European markets, but can provide information on local, lesser-known companies that their larger competitors cannot possibly offer.

Yet the research from continental brokers, both small and large, is often criticised for being too narrowly focused, too parochial. "London is streets ahead in putting the research into a European context," said one fund manager, "unlike say in France or Germany where firms fail to put together a truly pan-European product."

The lack of a tradition of comprehensive stock analysis is perhaps one reason why continental research is regarded as inferior to the UK variety. Pay and the lack of training are two others. Mr Marc Pereire, chairman of Pereire-Tod, the London research operation of French broker Rondeleux, agrees that the quality of research in France is not as good as in the UK. He explained that in France good analysts rarely remains in their jobs for long; they will very quickly be promoted to fund management if successful at analysing stocks.

Analysts are neither paid enough on the Continent, nor do they enjoy the same status as their UK-based counterparts. "The French do not realise that a good analyst should remain a good analyst, and should be paid properly for it," commented Mr Pereire.

Although some European houses have attempted to improve the quality of their research by acquiring UK brokerage firms (BNP's purchase of Quilter Goodison and Ark Securities, for example), most of the traffic of acquisitions goes the other way.

In Paris, alone, there have been at least four acquisitions by large UK houses in recent years: BZW of Puget Mahré; Warburg Securities of Bacot Allain; County NatWest of Sellier; and James Capel of DKL. James Capel has also bought Amsterdam firm Van Meer, while Warburgs recently purchased a controlling stake in Munich stockbroker Berwein Wertpapierhandels und Börsenmakler.

In the rush to provide the best service to their clients, some firms are offering a new approach to equities research – cross-border analysis. In contrast to the traditional practice of dividing analysts into country specialists, the new approach organises analysts on sector or industry lines.

The result is that fund managers are offered analysis of sectors where international forces are particularly at play. The industries that are most commonly researched on a cross-border basis are insurance/banking, chemicals/pharmaceuticals, motor, electronics and oils.

The growing technical complexity of industries makes specialisation necessary, say supporters of cross-border analysis. Critics claim that the new approach is unnecessarily expensive and poorly tailored for the needs of fund managers.

One head of a UK research department which sticks to the old approach claims to have found no real demand for cross-border analysis among his clients. "Ninety-five per cent of funds managers classify their portfolios by country, so if you want to run a profitable and effective business you have to organise it on a national basis. Anyway, sectoral analysis imposes a whole new layer of costs because sector analysts tend to be additional to those who research national markets."

However, no firm yet relies solely on cross-border analysis; most try to manufacture a happy mix of the two styles, with the emphasis still favouring the traditional country by country approach. "At the moment stock prices are moved more by local market conditions than cross-border conditions," explained on senior analyst.

A team of well-respected analysts can help a UK firm win new business from UK clients, or a US firm win more from American clients; but can good research attract business from say, French, German or Swiss institutions? It is an, as yet, largely untapped and potentially huge market

The answer so far seems to be no. Most investing institutions remain loyal to their local securities houses when looking for research on domestic stocks. And when they need information on lesser-known overseas companies, they tend to go to a firm from the country in which that company is based.

As one head of a London research operation put it: "I think that we are still some way from the day when a fund manager in Germany calls up a broker in Spain about a stock in Italy."

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INSIDE

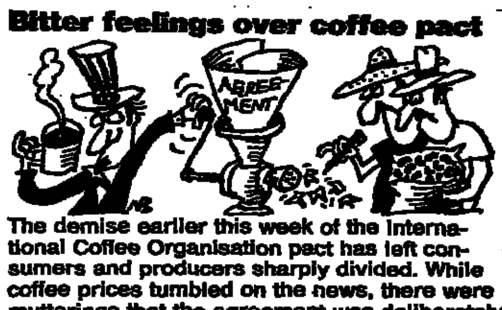
Home-front problems dog German bankers

When more than 1,000 West German public-sector bankers recently met in Cologne for their regular gathering, the theme was On the way to Europe, 1992. But, as many of the delegates were painfully aware, most of the problems facing them are home-grown and much more immediate. In the first of three articles Haig Simonian examines the general difficulties confronting the banks, particularly the wholesale Landesbanken. Page 21

Clearing the blockages

Computer software developers are becoming convinced that a cure for the world's software crisis is at hand. Called object-oriented programming, it is faster and more flexible than conventional methods and should ease the infamous information systems backlog. Alan Cane reports. Page 29

Bitter feelings over coffee pact



The demise earlier this week of the International Coffee Organisation pact has left consumers and producers sharply divided. While coffee prices tumbled on the news, there were mutterings that the agreement was deliberately murdered, with the two largest producers, Brazil and Colombia, blaming the intransigence of the US, the biggest consumer, for the failure. David Blackwell reports. Page 30

Received wisdom challenged

According to conventional wisdom, equity gains on Wall Street should have kept pace with the sharp decline in bond yields over the past month and a half. Yet last week, when US bond prices hit their highest level for more than two years, shares suffered their worst falls since the dismal days of the 1987 crash. With hindsight, nobody should have been taken unawares by this divergence from the norm. Anatole Kaletsky explains why. Page 40

True buccaneer

Company chairman who enjoy going on the acquisition rampage often find themselves being described as "buccaneering" in the financial press. Rarely could such such an adjective – with all its piratical-overtones – have seemed more appropriate than in relation to Philip Birch (left), chairman of the Ward White retailing group. If not exactly an old seadog, his years in the merchant navy do give him a degree of nautical credibility. Moreover, he has taken an almost impudent relish in the spate of deals that have made his company one of the UK's largest retailers, writes David Waller. Page 28

Ready to pounce

BP's decision to sell its global coal interests and the likely sale of Gold Fields of South Africa if the Hanson bid for Consolidated Gold Fields of the UK succeeds, have attracted the keen interest of South African companies. None more so than General Union Mining Corporation. Anthony Robinson looks at the group that is poised for expansion after floundering earlier this decade. Page 22

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)

Rises			
Allianz	1942	+	41
Commerzbk	261	+	8
Karstadt	575	+	19
Kaufhof	537.5	+	11.5
Falls			
[illegible]	[illegible]		
Mannesmann	249	−	8
Thyssen	232	−	9.5

PARIS (FFr) [illegible]

US Markets closed.

TOKYO (Yen) [illegible]

LONDON (Pence) [illegible]

West Germans rush to buy while stocks last

Haig Simonian explains why foreign acquisitions are so tempting to the country's food retailing chains

It may be commited to expanding internationally, but last week's West German newsflash that "Tengelmann takes over Heinz", probably over-reached even the ambitions of the privately-owned company now locked into the £2bn ($3.16bn) battle over Gateway, the UK supermarkets chain.

The Heinz in question turned out to be a small sausage-maker in the Rhineland. But the news was a further example of the limited acquisition opportunities currently available to Germany's food retailers and their consequent need to look abroad.

In that respect, the Gateway bid, which is being masterminded by the Great Atlantic & Pacific Tea Company (A&P), the US supermarkets chain in which Tengelmann owns a controlling stake, is no more than the most striking example yet of a trend that has been gathering pace for some time.

Tengelmann has been leading the pack. In Europe, it already owns stores in Holland and Austria. But it was the decision in January 1979 to buy 47 per cent of then-ailing A&P, later increased to majority control, which remains one of the biggest foreign acquisitions by a German retailer until the Gateway bid.

Speaking in London yesterday, Mr Jim Woods, chief executive of A & P, stressed that the Gateway bid had been very much a joint decision by Mr Erivan Haub, who heads Tengelmann, and himself.

Foreign sales now account for some 55 per cent of Tengelmann's turnover – by far the biggest proportion of any German retailer – with A&P responsible for the lion's share. A successful bid for Gateway would raise sales, which amounted to DM36bn ($18.5bn) in the last business year, by a third again.

The reasons why so many German retailers, especially on the foods side, are looking abroad are disarmingly simple. Domestic expansion is being hampered by a stultifying mixture of slow, if not declining, population growth and ever tougher monopoly controls, which have restricted rationalisation, and led to spiralling prices for any takeover candidates available.

"I'd go so far as saying there is no longer a free market in retailing in Germany," says an executive from one leading group which has regularly come up against cartel constraints. "The regulators would prefer to let a company go bust than allow it to be bought by one of the big supermarket groups."

The problem of limited volume growth has been exacerbated by a continuing number of small shops being opened. Thus, while the big chains like Aldi, Tengelmann and Rewe Leibbrand are closing smaller units in favour of more efficient big stores, the number of small food shops is only declining slowly.

Worse still, big supermarkets in attractive out-of-town greenfield locations, which many in the industry see as the most efficient – and profitable – outlets in German retailing, are now all but impossible to open on account of extremely tough municipal zoning rules and vehement opposition from existing town-centre retailers.

Erivan Haub: bid was joint decision with Jim Woods of A&P

Top ten W.German food retailers 1988
Sales DMbn excluding VAT

Metro Group	20.400
Leibbrand Group	17.000
Aldi, North & South	15.660
Karstadt	12.415
Asko-Massa Group	12.182
Co op AG	11.550
Tengelmann Group	11.370
Quelle	8.800
Otto Group	5.669
Hertie	5.310

Source: Lebensmittel Zeitung

"You can open small shops, but it's impossible to open interesting-sized units," says Mrs Rosemarie Baumeister, a Tengelmann director.

The limits on out-of-town developments have hit discounters, like Asko and Massa, particularly hard. Both companies, now closely linked, have concentrated on greenfield hypermarkets, and both acknowledge that future growth will depend on either pushing more volume through their existing sites by widening the range of choice, or by expanding abroad.

Asko has already done so in the US, where it started buying into Furr's, a retail group in Texas and New Mexico in 1985. Two years later, Furr's paid $114m for the El Paso division of Safeway.

But, while both Asko and Massa are quoted companies, what particularly distinguishes the German food retailing scene is the dominance of a handful of huge privately-owned firms. Unlike the UK, where a small number of quoted supermarket chains, like Sainsbury and Tesco, dominate the market, the leading German names, like Metro, Leibbrand, Aldi and Tengelmann are all still privately owned and often run by highly-motivated family entrepreneurs.

Some, like Mr Karl-Heinz Kipp, whose Massa group pioneered out-of-town hypermarkets in Germany, are getting on, and have either sold out or gone public. The same applies to the Schaper and Werhahn families. But companies like Tengelmann, owned by Mr Haub, a direct descendant of the company's founding family, Aldi, and, in mail order, Quelle and Otto Versand, remain private.

Many are also extremely secretive, helped by domestic legislation which allows private companies a remarkable degree of freedom in withholding financial information.

Tengelmann only published its first balance sheet in 1971 in response to new laws, and fully-consolidated figures will only appear when new European Community rules come into force in two years' time.

Profits information is even scarcer. Competitive considerations, German "understatement" and concern to avoid unnecessary attention from the taxman play a part, but fear of the gutter press is also a potent motive. Speculation about the "billions" owned by the leading retailing families like the Haubs, Beisheims (the major shareholder in Metro), Leibbrands, Schickedanzs (Quelle) or Herzs (Tchibo's coffee) are a regular feature of the gossip columns.

Nowhere is silence taken further than at Aldi, the discount retailer owned and run by two brothers, Mr Karl and Mr Theo Albrecht, which has thrived on the simple concept of no frills, limited-range selling.

Aldi's secretiveness also has personal grounds; Mr Theo Albrecht was kidnapped for DM7m in 1971, and the family has gone to ground ever since. Even the simplest corporate information is withheld, helped by the decision to split Aldi into more than 30 legally-separate regional units, each of which is too small to be caught in the disclosure net.

The restricted information from the private companies allows speculation and gossip to thrive when it comes to developments abroad. But Aldi is already dipping its toes into the UK market, where its plan to open a small number of stores and has already become the stuff of grocery trade gossip. In addition to this, Otto Versand has regularly been tipped as a possible buyer of a UK mail order group.

Why the interest in the UK? Higher margins than in Germany are the key, along with greater confidence about the economy under Mrs Thatcher. "Pre-tax returns of 1 per cent would be considered good in German food retailing," says one executive. "So the 5 per cent or so being earned by some leading UK chains are dream numbers for us."

In time, other European countries also stand to feel the German influence. Italy, Spain and Portugal are all attractive, according to a senior executive at one big retailer. "Greece and Turkey could also become interesting later," says Mrs Baumeister. But, with the bid for Gateway now entering its twelfth week, the immediate focus for Tengelmann is still a little closer to home.

Gateway bidders hot up war of words

By Nikki Tait in London

THE WAR of words between the two bidders for Gateway, Britain's third largest food retail group, intensified yesterday, with Isosceles attacking the soundness of its US rivals' financing package and questioning the disposal programme envisaged.

By contrast, Newgateway, the vehicle through which corporate finance boutique Wasserstein Perella and Great Atlantic and Pacific Tea Company is making its recommended offer for Gateway, hit out at Isosceles' planned trading strategy. It also mounted another assault on the paper element in Isosceles' cash and paper alternative – claiming that this was a "high-risk investment".

From Gateway, there were official figures for the year to April 29. These had been forecast as part of the group's defence, and in the event showed pre-tax profits of £214.7m in the 52-week period, on sales of £4.52bn, slightly higher than the £213.7m suggested in the company's defence document. Earnings per share of 17.7p compared with a forecast 17.3p after a tax charge of £57m, against the £60m estimate.

The Isosceles attack centres on the Newgateway financing. It argues that at current interest rates, a full-year cost of servicing the senior and mezzanine debt could be £350m – with an additional £49m payable to A&P on the junior subordinated debt – against Gateway's pre-interest profit of £226m.

The UK bidder points out that Newgateway has not disclosed the banking covenants dealing with interest cover and asset disposals, and points out that senior and mezzanine loan details do not appear to have been finalised.

It also raises questions over the absence of a clearly-stated disposal programme. Mr Jim Wood, A&P's chief executive, has previously suggested 300 stores might be sold, and yesterday said 10 London superstores would form part of this plan.

But Mr Wood went on to criticise the Isosceles plan to pull out of superstores altogether.

Meanwhile, Wasserstein Perella argued that Isosceles' equity stub would be a risky investment, could be illiquid and might come under selling pressure.

Newgateway later defended its funding, pointing out that it has always suggested that the mezzanine element would be refinanced fairly quickly, and that commitment letters from the banks had been received.

Krupp predicts return to profit

By David Marsh in Bonn

FRIED. KRUPP, the West German steel and industrial group, yesterday predicted it would return to profit this year after a net loss of DM 202m ($103.3m) in 1988.

Group turnover in the first five months of 1989 rose 24 per cent to DM6.4bn compared with the same period last year, of which DM3.6bn came from steel activities. Incoming orders rose 21 per cent in the six months.

Mr Gerhard Cromme, the new chairman of the management board, claimed that 1988 and 1989 would go down as years of "structural change" and said that the recent period of "turbulence" in the company's fortunes now belonged to the past.

He said turnover for the whole year would rise a less rapid 12 per cent to about DM16.5bn against DM14.7bn in 1988.

At the company's annual press conference in Essen, Krupp officials gave no information on the progress of the company's talks with the state-owned steel and engineering concern, Salzgitter.

News of the contacts on co-operation between the two companies surfaced last month, but both Krupp and Salzgitter say they are at a very early stage and do not yet have the character of "negotiations".

Mr Cromme, the former head of the company's publicly-quoted steel subsidiary, said the greatest loss-maker last year was its plant engineering unit, Krupp Industrietechnik, which recorded a deficit of DM412m. Losses here would be substantially reduced this year.

Operating income last year of DM217m was more than swallowed up by outgoings connected with restructuring, centring on the gradual shutdown of the Rheinhausen steel mill on the Rhine. Steel operations last year made a profit of DM485m against only DM36m in 1987. Engineering, electronics and trade activities turned in earnings of DM178m, against DM285m.

The overall 1988 loss – on group sales up only 4 per cent – was struck in spite of DM132m in extraordinary earnings, largely the result of the sale of 50 per cent of Krupp's trading subsidiary to Lonrho of Britain.

Mr Cromme said Krupp had no intention of keeping loss-making activities indefinitely, and pointed to the possibility of further divestments, without giving details.

Nomura strengthens ties with Matuschka

By Haig Simonian in Frankfurt

NOMURA Securities, Japan's largest stockbroker, is supplementing its planned 5 per cent stake in the Matuschka Group, a West German fund management and financial services company, by taking a 25 per cent share in MAT Main Anlage Trust, Matuschka's Frankfurt-based fund management operation.

The news comes just as the German partnership is putting the finishing touches to its plan to sell small equity stakes to a number of institutional investors from the US, UK, Italy and France, as well as Nomura.

Details of that transaction will not be available until the end of August, but Mr Rolf Christof Dienst, one of Matuschka's partners, yesterday confirmed that none of the five shareholders would have more than 5 per cent of Matuschka, while some would have appreciably less.

Nomura, which last year paid $100m for a 20 per cent stake in Wasserstein Perella, the US mergers and acquisitions specialist, first disclosed its plan to take a stake in Matuschka last January. The German company has made a name for itself in innovative financial services, including cross border M&A and management buy-outs.

The decision to buy separately into MAT Main Alage Trust, which is being done through Nomura's German subsidiary, reflects the growing interest among Japanese institutions in investing in European financial markets, said Mr Dienst. The two companies would also co-operate in their Asian investment policy.

Separately, Matuschka announced two further deals to strengthen its position in Europe. First is the creation of a new venture with Akros, a leading Italian investment bank, to advise on international investment policy.

Meanwhile, Matuschka is itself buying a 14 per cent stake in Compagnie d'Investissements Astorg, a French quoted investment group specialising in medium-sized companies from Credit Lyonnais.

The stake, costing some DM35m to DM40m ($20m), should strengthen Matuschka's presence in the French market, notably for M&A deals, where it already works closely with Compagnie Financiere de Suez, Astorg's main shareholder.

Thistle hotel sell-off to fund S&N drive into European leisure arena

By Ray Bashford in London

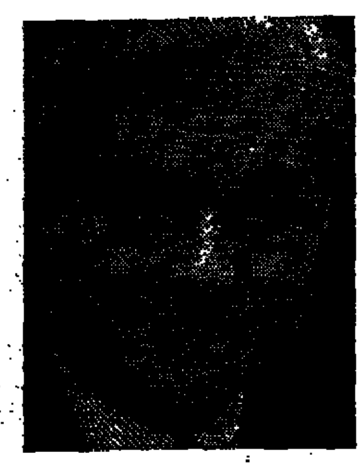
SCOTTISH & NEWCASTLE Breweries yesterday unveiled a new corporate strategy which calls for the redeployment of more than £600m ($932m) of assets and a concerted drive into the European leisure industry.

The Edinburgh-based brewer ended weeks of speculation by announcing the proposed sale of its Thistle chain of hotels; the acquisition of a majority stake in Center Parcs, a Dutch holiday village operator; and the purchase of the 50 per cent it does not already own of Pontin's, the UK leisure group.

Mr Alick Rankin, chief executive, also announced a 22 per cent growth in pre-tax profits to £138.2m in the year to April 30, and described the plan as an opportunity to realise gains on low yielding assets and invest in "something new and exciting."

The diversification into leisure is taking place against a background of uncertainty in the UK brewing business as the Department of Trade and Industry considers last March's recommendations from the Monopolies and Mergers Commission for a historic reshaping of the industry.

Several City analysts saw the move as an attempt by S&N to offset the potential downturn in beer sales it may experience if the DTI reforms lead to heightened competition.



Alick Rankin: "new and exciting" investment

The swing into leisure and away from hotels could make the group a less attractive target for predators in the wake of the failed takeover bid by Elders IXL, the Australian brewing group which retains a 24 per cent stake in S&N.

To fund the deal, the Thistle chain of hotels is being put up for tender. Mr Rankin said the chain was being sold to realise a large capital gain on an asset that was giving an unacceptably low yield of 4 per cent.

Sources close to the company said the sale could return at least £700m, while analysts' forecasts varied widely, with a low of £625m.

The sale is expected to be concluded within three months. There had already been 30 expressions of interest.

S&N is taking a 65 per cent stake in Center Parcs, the owner of 13 holiday villages in the Netherlands, Belgium, France and the UK, with most of the holding coming from a charitable Dutch foundation. It is paying £218.5m in cash and will also assume the group's debt of £300m.

The company will not be able to pick up the remaining 35 per cent for at least three years, under an agreement with the Dutch.

Strengthening its place in the UK leisure business, S&N is paying the equivalent of £80m for the remaining 50 per cent stake in Pontin's, which operates 20 holiday centres. The deal comprises £5m cash and the issue of 16.7m S&N shares, which after the announcement yesterday closed at 332p, down 5p.

Lex, Page 18; Results and Center Parcs profile, Page 28

INTERNATIONAL COMPANIES AND FINANCE

3i surges to record £232m profits

By Charles Batchelor

BRITAIN'S enterprise culture is alive and flourishing to judge by the 1988-89 performance of 3i, the country's largest venture capital company.

3i, an important barometer of the unquoted business sector, yesterday reported record business and profits levels in the year to March – and says it plans to open continental European offices in the run-up to 1992.

The group's total return after tax rose to a record £232m ($360m) from £183m the year before and exceeded the previous record of £191m in 1986-87. Investments also reached a new high of £581m compared with £537m the year before, although much of this increase was due to a rise in property investments.

Some measure of the pace of economic activity among the small companies and management buy-outs that 3i funds is reflected in the fact that almost a quarter of all investments – £1.1bn worth – the group has made since it was founded in 1945 have been done in the past two years.

Despite the sharp increase in interest rates in recent months there has been no sign of a slackening of activity in the current year, 3i reported.

For all the success of Britain's enterprise economy, 3i, like many other UK venture capital groups, looks increasingly to continental Europe for growth. It opened an office in Strasbourg on Monday and plans to open further offices in Lyons, Madrid and Milan in the next nine months.

Despite the overall increase in 3i's investments, some important sectors of its activity are starting to mark time, reflecting the growing difficulty for the venture capital industry in finding good deals.

3i completed 108 buy-outs worth £181m last year, a slight decline on the 109 deals worth £191m the year before. It also saw a fall in start-up financing, with 222 deals worth £61m being done last year compared with 276 deals worth £93m in 1987/88.

However, management buy-ins, which involve an outside management team taking control of a business, did well, increasing to 42 deals worth £15m from 29 deals worth £10m last year.

3i is an unlisted company owned by the Bank of England and seven commercial banks. Sir John Cuckney, the chairman, said yesterday that 3i and its shareholders had considered a stock-market listing.

Lex, Page 18

Wiggins Teape plans Portuguese paper plant

By John Arlidge

WIGGINS TEAPE, the European pulp and paper subsidiary of BAT Industries of the UK, has finalised plans for a $280m integrated paper machine in Portugal to be built by Soporcel, Europe's largest eucalyptus pulp producer. Wiggins Teape has a 42 per cent stake in Soporcel.

The new machine is to be built alongside Soporcel's pulp mill, which produces 320,000 tonnes a year of eucalyptus pulp.

This will be the company's first paper mill in the country. Construction is due to start in August following approval by Soporcel shareholders later this month. Production is due to start in 1991. There will be 220,000 tonne annual output of office communications paper.

According to Martin Broughton, the newly-appointed Wiggins Teape chairman, the move is to satisfy increasing demand in southern Europe. "Sales will be Europe-wide although our prime market is Spain and Portugal," he said.

Portugal was chosen for its low production costs. "We want to be cost-competitive. This has a big cost advantage for the Iberian market," said Mr Broughton.

The move will be backed up by a $70m to $80m investment in forestry in Portugal to provide a cost-effective supply of raw materials. Wiggins Teape has already committed $40m to growing eucalyptus trees there.

UK property group shares up on news of possible bid

By John Thornhill in London

SHARES IN Arlington Securities, the UK property group, rose sharply yesterday when it announced it had received an approach which might lead to a bid for the company.

The shares closed at 260p, up 45p, giving the company a market value of £205.8m ($319m).

The potential predator was not known last night, but was probably attracted by the relative cheapness of Arlington shares when set against the potential value of its development programme.

Property development companies such as Arlington were the darlings of the London stock market before the October 1987 crash, but since then have been out of favour because of the institutional preference for a strong asset backing. Arlington, however, has substantial assets through its land holdings.

The group is one of the British leaders in business park development, a phenomenon imported from the US which has spread rapidly throughout the south of England. Expansion has meant that Arlington has about 1000 acres awaiting development, and recently was selected to create a new business park at Calais.

Arlington has diversified into retail property and is involved, often in joint ventures, in a series of projects which should provide a revenue stream from the early 1990s.

In the year to March 31, Arlington reported a 50 per cent rise in pre-tax profits to £33.42m.

At the year end, it had a net asset value of 123.11p per ordinary share, although this figure did not take account of the increased value of its development stock, which professional valuers had assessed at a pre-tax surplus of £57m, equivalent to 72p per share.

The Kuwait Investment Office has a 16.18 per cent stake in Arlington, but no other outside investor is known to have a disclosable stake.

The group was built up by Mr Raymond Mould and directors hold 14.5 per cent of the equity.

Générale shares row blows over

By Tim Dickson in Brussels

THE ACRIMONIOUS row over how Générale de Banque handled its offer for sale of an 11 per cent stake in Société Générale de Belgique appears to be blowing over. The Brussels Stock Exchange listings committee has agreed that the shares should be quoted.

Générale de Banque made it clear last week that it rejected allegations from Belgian stockbrokers that the allotment of 5m shares reserved for the Belgian stock market was "discriminatory" and that it did not intend to change the method of allocation.

It defended its decision to satisfy up to 75 per cent of small applications – while institutional and professional investors got just 25 per cent of what they asked for - on the grounds that members of the underwriting syndicate were all treated in the same way while those outside it also received "uniform treatment."

The Stock Exchange committee, which last week had been asked to suspend SGB shares as a protest, has decided that the shares will be listed on the Brussels cash market and on the computer assisted trading system.

"The committee," said a statement, "has decided that the disagreement . . . does not constitute a reason for suspending the quotation."

Investor buys into Georgia Gulf

By Roderick Oram in New York

MR HAROLD Simmons, the prominent Dallas investor, has taken an 8.3 per cent stake in Georgia Gulf, a producer of commodity and speciality chemicals.

The stake was disclosed in a regulatory filing by NL Industries, another chemical maker which Mr Simmons won control of three years ago. NL said that the shares were for investment purposes and that it may decide to buy more.

The news triggered takeover speculation about Georgia Gulf, pushing up its share price late on Monday by $1¾ to $39¾. This valued the company at almost $1bn.

The Atlanta-based company was created four years ago through a $257m leveraged buy-out of the chemical operations of Georgia Pacific, a forest products company. It made an initial public offering of its shares in December 1986 at $19.50 a share.

Like its competitors, Georgia Gulf is enjoying booming chemical demand and prices. Its net profits doubled last year to $193.8m, or $6.75 a share, on revenues of $1.06bn against $707m a year earlier. In the first quarter of this year net earnings rose 44 per cent to $55.4m, or $2.12 a share. Analysts are forecasting full-year profits of around $7.75 to $8 a share. The company has little debt.

It has two integrated lines of commodity chemicals. A salt dome on long term lease provides raw materials for chlorine and caustic soda. The soda is sold to the pulp and paper industry and the chlorine is combined with purchased ethylene to make vinyl chloride monomer which is sold or turned into PVC.

In the second line, it buys benzene and propylene to produce cumene which it turns into phenol and acetone. These are used by plywood and paints businesses.

IBM 'losing vital market share'

By Alan Cane

INTERNATIONAL Business Machines (IBM), the world's largest computer manufacturer, is losing the market share in Europe on which it depends for nearly half its world-wide profits.

The latest annual figures published by Datamation, the US data processing magazine, show that IBM's 1988 European revenues from information systems were $20.5bn.

It is the first time the US computer group has broken the $20bn barrier in Europe, and the revenues are almost four times the turnover of the leading indigenous company, Siemens of West Germany ($5.29bn).

However, IBM's share of the $90bn European marketplace for information systems fell to 31 per cent, down from 33 per cent in 1987 and 42 per cent in 1984.

Last year, European revenues accounted for 34 per cent of IBM's corporate sales and 43 per cent of its profits.

The Datamation figures reveal the extent to which changes in the computer marketplace, brought about by the availability of low cost microprocessor-based systems which outperform conventional mini and mainframe computers, are affecting even the largest computer companies.

Datamation comments: "As hardware increasingly becomes a commodity product and the open systems standards movement that began in the late 1970s creates new dynamics in the European hardware industry, the competitive focus is on electronic trading links, networks services and mission-critical systems."

A consequence has been a slowdown in the US which cost IBM a 27 per cent fall in profits there in 1988, and which is causing most of the the US-based suppliers difficulty in sustaining high growth rates.

Siemens took top place in Europe among indigenous information systems suppliers, followed by Olivetti of Italy, Groupe Bull of France and Nixdorf, also of West Germany.

Alusuisse acquires Cellu-Craft

By William Dullforce in Geneva

ALUSUISSE, the Swiss aluminium and chemicals group, announced yesterday that its US subsidiary had bought Cellu-Craft, a packaging company with plants in Illinois and Florida, for an undisclosed sum. The US company employs 380 people and is expected to reach $70m in sales this year.

Cellu-Craft, which specialises in flexible, customised packaging for the food market, fitted "perfectly" into the Swiss group's strategy of becoming a major supplier of packaging to food, pharmaceutical and cosmetic producers, the announcement said.

Alusuisse Flexible Packaging makes a complementary range of products.

The Swiss group, which has gone through a far-reaching corporate restructuring under new management in the last three years after running up losses of SFr1.3bn ($778m) in 1985 and 1986, has switched strategy from primary aluminium production towards more sophisticated products.

The packaging sub-division set up last October has been expanding by takeover and now accounts for about a quarter of the SFr4.2bn sales of the aluminium division. Last year Alusuisse bought William Garfield, an aluminium container producer in Birmingham, UK, and took a half share in Weidenhammer Packungen, a West German instant food packaging company. It also has interests in two French and another German company.

Gotthard Bank sees income rise

GOTTHARD BANK (Banca del Gottardo) said yesterday that its 1989 net earnings should be higher than last year's SFr41m ($24.5m) in spite of large increases in general expenses and personnel costs, writes William Dullforce.

Operating profit, before depreciation and provisions, for the first half of the year had exceeded "by far" the corresponding figure for 1988. Sumitomo Bank of Japan has a majority stake in Gotthard.

German electricity utility undergoes restructuring

RWE, the West German electricity utility, is to push through a radical restructure to make the group more competitive, Reuter reports.

Under the plan RWE becomes a holding company handling five divisions: energy, mining and raw materials, oil and chemicals, machinery and industrial plant construction and waste disposal.

The restructuring will become effective in the first few months of next year.

The holding company will control finances, plot strategy and control quality. The energy activities will be combined in a new company, RWE Energie.

The Rheinische Braunkohlenwerke unit which now comprises the raw materials and mining division will be given a new name, Rheinbraun.

The oil and chemical operations, which RWE acquired following the purchase of Deutsche Texaco, has changed its name to RWE-DEA. The group waste disposal activities will be concentrated in RWE Entsorgung.

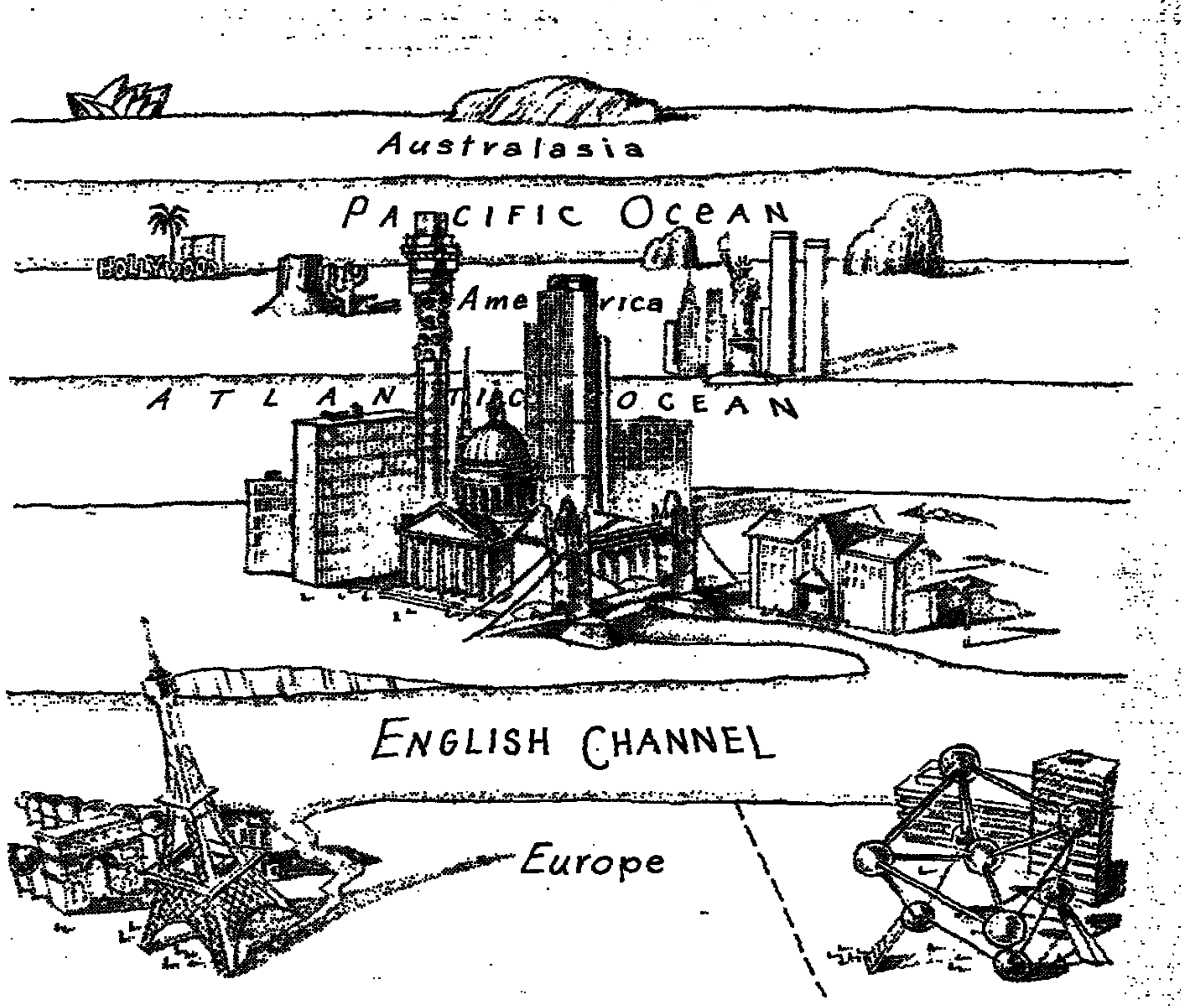
Tisco lifts S&L stake to 49.5%

By R.C. Murthy in Bombay

TATA IRON and Steel Company (Tisco), India's only private-sector integrated steel company, is to buy from British Steel a 39.5 per cent stake in Stewarts and Lloyds of India.

Tisco already holds 10 per cent and after Indian regulatory approval will come close to majority control. Tisco earlier bought S&L's holding in Indian Tube, a steel tube manufacturing company.

Pre-tax profits at Tisco rose to a record Rs1.80bn ($107.2m) in the year to March.



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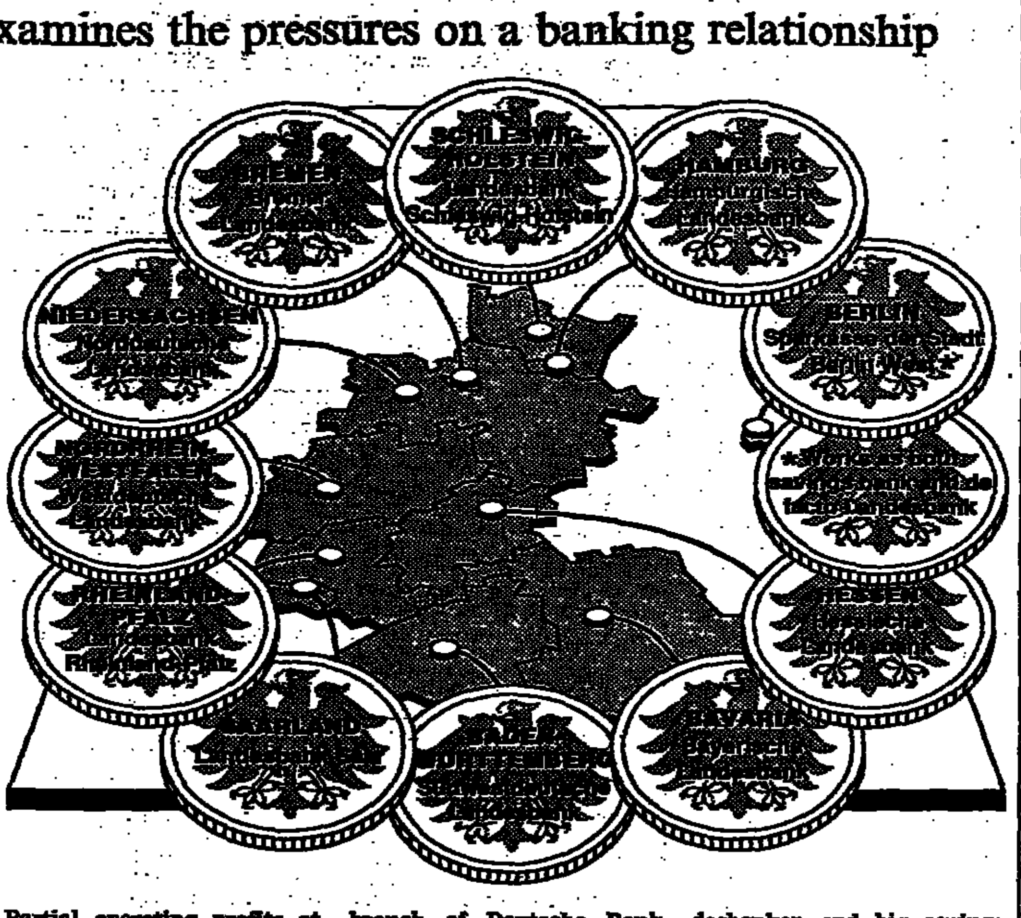
INTERNATIONAL COMPANIES AND FINANCE

Landesbanken feel the strain

Haig Simonian examines the pressures on a banking relationship

Last month more than 1,000 West German public sector bankers got together in Cologne for their regular three-yearly gathering. This year's theme was On the way to Europe, 1992. But, as many of the delegates were painfully aware, most of the problems facing them are home-grown and much more immediate.

This, the first of three articles, examines the general difficulties confronting the banks, particularly the wholesale Landesbanken, which are facing the greatest pressures from banking deregulation and increasing competition. The subsequent articles will focus on attempts to find a solution.



Little should divide West Germany's 584 municipally-owned savings banks (Sparkassen) from its 11 Landesbanken. The savings banks stick to retail banking for private clients and small businesses, and pass on more difficult or specialised tasks to the Landesbanken, which provide the savings banks in each state with wholesale banking services, such as foreign exchange and securities trading.

In theory it should be a blueprint for cost-effective and efficient co-operation, based on common goals. But in reality it is only in home savings products, which are managed centrally at state level, that the co-ordination has really worked. Elsewhere, relations between the Landesbanken, which are generally co-owned by the savings bank associations and Land governments, and the savings banks are often tense.

The problem has surfaced in declining market shares and dwindling profits — often at the hands of the country's universal banks which have been pushing hard into retail banking. Even Germany's co-operative banks, which face substantial structural problems, appear to be coping better with the more competitive climate.

The public-sector banks should be able to win hands down. Together, Sparkassen and Landesbanken dominate German banking, with total assets of some DM1,500bn ($781.25bn). They account for over 37 per cent of all loan volume, while around 50 per cent of all Germany's current accounts — some 25.2m — are held by about 18,000 savings bank branches.

Both Sparkassen and Landesbanken rely on maturity transformation between borrowing and lending to make most of their money. With a steep yield curve, that means easy income for the Sparkassen in particular, which do not have to bear the sort of costs being incurred by the bigger Landesbanken, which have moved into new services, especially in investment banking.

Flatten out the yield curve, as has increasingly been the case in the later 1980s, and earnings at the public sector banks tumble. *Lacking the savings banks' access to cheap deposits, the Landesbanken are* particularly exposed.

Partial operating profits at Westdeutsche Landesbank (WestLB) and Bayerische Landesbank, the two biggest Landesbanken, fell by 15.2 per cent and 6.4 per cent to DM758m and DM491m respectively last year. Both are predicting lower profits for 1989.

The main problem among the public sector banks is that each side blames the other for its difficulties. While the savings banks criticise the Landesbanken for expensive foreign expansion and rising charges, the Landesbanken say it is up to the savings banks to pass on enough business to warrant the heavy investments they have made.

Cultural differences play a part. The head of a small provincial savings bank, or the municipal official on its supervisory board, probably finds some Landesbank salaries excessive. Certainly, concern about the competitive pay pressure after Big Bang cuts little ice at a savings bank.

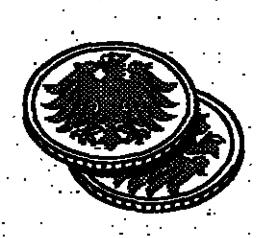
By contrast, Landesbank bosses tend to see the problem as one of generations. Many grumble at the mentality of some local savings bankers, whose product knowledge is often limited to lending.

Off-balance sheet business and the shift to fee-related services — which most Landesbanken see as their path to greater profitability — are underplayed. "Savings banks still tend to think more in terms of building up assets than fees," says one Landesbank chief.

Thus new products can be treated with suspicion at local level. Landesbank executives joke painfully about the tendency of some savings bankers to send a customer who is demanding something out of the ordinary to the local branch of Deutsche Bank rather than bothering to work through the Landesbank.

Not all savings bankers have their heads in the sand, however. In recent years, the biggest urban savings banks, notably the Landesgirokasse Stuttgart, the third largest, with DM20bn in total assets, have been trying to break away from official restrictions and expand their services.

Under its chief executive, Mr Walther Zügel, the Stuttgart bank has been leading the drive into new services like securities trading, bigger lending and taking stakes in companies — the first step to winning flotations — as well as foreign representation.



But it is savings banks' very heterogeneity which is part of the problem. Over DM27bn in total assets separates the biggest savings bank, the Hamburger Sparkasse, with assets of DM27.4bn, from the smallest, the Gemeindesparkasse Bergen/Dumme, with just DM46m.

The big savings banks' desire for greater independence has increased the strains within the system, notably in terms of relations with the Landesbanken.

While links between the Landesbanken and big savings banks are being soured by competition, relations with the small and medium-sized savings banks have also suffered as the Landesbanken have had to raise charges.

Add to that the possibility of greater competition after 1992, and the outlook for the public sector banks looks bleaker still. While the Landesbanken are already feeling the pinch as more foreign banks pile into the overcrowded German wholesale markets, even the savings banks' *immunity* will not last forever.

Many foreign banks are already eyeing Germany's huge savings pool, which some think they can tap without setting up a branch network. With over half the country's savings accounts held at savings banks, the present thick margins could come under pressure, and are likeley to collapse entirely when money market accounts eventually dawn in Germany.

Two broad options are emerging for the public-sector banks. The first involves rationalising the number of Landesbanken to a maximum of five, possibly even three, to increase competitiveness and achieve economies of scale.

Improving relations between Landesbanken and savings banks by changing Landesbank ownership to give the savings banks *full control* and create a wide-scale "financial group" in each state is the alternative. Later articles will examine both options.

But, whichever way Germany's public sector banks turn one thing is clear. The public sector banks have no *time to lose in putting their* house in order, because every day they delay only makes life easier for the competition.

Boston firm to enter Chilean markets

By Barbara Durr in Santiago

BATTERYMARCH, the Boston-based investment firm, is to bring some $15m into the Chilean financial markets by August. The money, according to Mr Raul Toro, the lawyer representing Batterymarch's interests in Chile, is part of the firm's Equity Fund of Latin America, established in Luxembourg in April.

The fund will be the first to enter Chile under an untested 1987 investment law which provides for direct investment in shares and other financial instruments, not using debt swaps.

Profits are taxed at a flat 10 per cent and can be repatriated at any time. The initially invested capital must stay in Chile for at least five years.

The arrival of the money could, however, be delayed because all of the law's regulatory kinks have not yet been ironed out.

Yet, despite this, Mr Toro said he was optimistic the bureaucratic hurdles could be cleared within the next few weeks. Mr Ramon Yavar, the superintendent of stocks and bonds, who is to oversee the investment funds, was less sanguine about how quickly they would begin.

Of Batterymarch, he said: "The intention is serious, but there's nothing on paper yet."

Salomon Brothers, the New York investment bank, is also preparing to bring some $60m to Chile under the same law.

Since starting to sell shares in April, the Equity Fund of Latin America has gathered $115m for investment in the region, including Brazil, Mexico and Argentina.

State aims to sell all its Air Canada stock

By Robert Gibbens in Montreal

THE SIZE and price of the coming Air Canada stock issue is due to be decided later this week by the Federal Government and the underwriters.

The shares have been trading *at around C$12¼* and the Government will try to sell its complete holding in the national airline, even at a substantial discount.

The Government holds 55 per cent of Air Canada. Last November *the airline issued* 31m new shares at C$8 a share, thus diluting Ottawa's 100 per cent holding. The C$240m (US$201m) net proceeds went to support the airline's C$2bn reequipment programme.

If the Government succeeds in selling all its remaining 41m shares, it would stand to gather in around C$500m at the present market price.

Demand for the issue "looks very favourable," say the underwriters. Up to 25 per cent of the Government's shares will be sold abroad but by law 25 per cent of Air Canada must *remain in Canadian hands.*

● Dofasco, Canada's largest steelmaker, has acquired Quebec Cartier Mining Company, one of the country's two largest iron ore producers, from USX of the US for an undisclosed price, pushing the Australian Elders IXL aside.

INTERNATIONAL COMPANIES AND FINANCE

Gencor aims to gain by others' flight from S Africa

Anthony Robinson on why a mining group is positioning itself for the probable sale of GFSA

The outcome of Hanson Trust's bid for Consolidated Gold Fields of the UK and British Petroleum's decision to sell its global coal interests are being closely watched in Johannesburg.

South Africa's main mining, industrial and financial groups are quietly positioning themselves for the probable sale of Gold Fields of South Africa (GFSA), the UK group's local subsidiary, and BP's coal mines in the country.

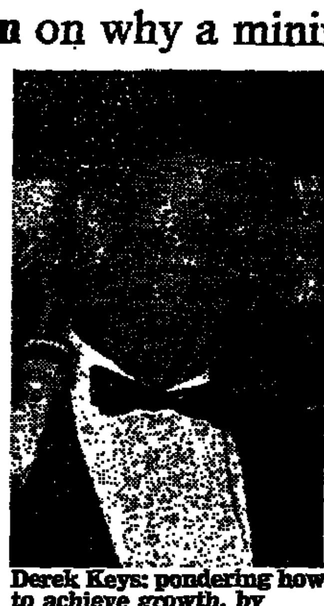
Mr Derek Keys, chairman of General Union Mining Corporation (Gencor), is taking a particularly keen interest.

After floundering badly in the mid-1980s, Gencor, backed by the financial muscle of Sanlam, the leading Afrikaner insurance and financial group, is now firing on all cylinders and poised for further expansion and fresh acquisitions.

In May it announced a R1.47bn ($533.5m), 20-for-100 rights issue, followed by a 10-for-one share split. Federale Mynbou, its main shareholder, will take up its rights in full. Federale owns 54.7 per cent of Gencor and is itself owned 50 per cent by Sanlam and 28 per cent by the Rembrandt group.

Non-residents own around 5 per cent of Gencor, South Africa's second-largest mining house, albeit only roughly a quarter of the size of Anglo American Corporation, the undisputed number one.

The fresh capital injection,



Derek Keys: pondering how to achieve growth, by acquisition and developing existing businesses

coming at a time of record earnings and profits for most of Gencor's main operating divisions, will be used both to develop existing businesses and make opportunistic acquisitions such as the recent purchase of Mobil Oil South Africa from its divesting US parent.

Gencor is already heavily committed to the new Oryx gold mine under construction in the Orange Free State and the new Karee platinum mine. Karee will add to its already substantial stake in the platinum industry through Impala.

Others with substantial investment programmes under way include Sappi, the group's fast-expanding pulp and paper division, which has just reported a 57 per cent annualised earnings rise on the strength of a weak rand and buoyant world prices; and Samancor, its 50 per cent-owned ferro-alloys company.

Gencor, together with Amic, Anglo's industrial arm, are leading shareholders in both Samancor and Highveld Steel. Highveld is planning to build a stainless steel smelter in the Transvaal together with Taiwanese interests.

It will ship hot rolled products to Taiwan for cold rolling. The planned plant will mark a significant development in South Africa's downstream minerals beneficiation policy.

Gencor's packaging and other extensive industrial interests have also shown dramatic growth since the industrial portfolio was reorganised into the Malbak group, headed by Mr Grant Thomas, widely recognised as one of the country's leading business talents.

The diversified Malbak chalked up 80 per cent earnings growth last year and expects a further 35 per cent in 1989. However, Malbak's recent £40m ($62m) acquisition of MY, a UK-based packaging company, as the base for penetration into the post-1992 unified European market has got off to a slow start.

Meanwhile, the acquisition from Mobil underlines the way in which Gencor's rapid internal growth is being matched through acquisitions, including assets made available by foreign disinvestment.

"We are not concerned about using the financial rand [the weaker unit in South Africa's two-tier currency system] to buy foreign assets because the Johannesburg Stock Exchange values such acquisitions at the financial rand rate anyway," he says.

For Gencor, as for many other South African companies, buying foreign assets has proved a cheap way of acquiring first-class intangible, as well as material, assets.

Thus, for an estimated $150m, Gencor acquired through its Mobil purchase not just a Durban refinery and South Africa's biggest petrol distribution network, but also the management skills and expertise it needs to develop its fledgling energy sector into an important growth area.

Based originally on its Trek petrol station network and 20 per cent stake in Soekor, the state-controlled oil and gas exploration company, Gencor last year raised its profile in the energy sector by winning the management contract for the state-backed R5bn Mossgas oil-from-gas conversion project at Mossel Bay.

With the contract came an option to raise its equity stake from the initial modest R30m to 30 per cent once the project was operational.

Mr Keys, the man at the centre of Gencor's regeneration, is a self-made millionaire with no previous mining experience. By chance he was interviewed barely an hour after news of the Hanson bid for Gold Fields flashed on to his Reuter screen.

Given Lord Hanson's track record, he was in little doubt that GFSA would be up for sale, or that when that happened the competition to buy could be fierce.

The Rembrandt group, Gencor's minority shareholder, already holds a 10 per cent stake in GFSA, with a pre-emptive option on a further 20 per cent.

Despite the current low gold price and diversification into other minerals and other sectors, Mr Keys made clear that Gencor intended remaining a leading player in the gold industry. "Our priority at the moment is to get a number of projects up to the starting line ready for flotation when conditions improve," he said.

An admirer of the lean management style practised by Lord Hanson, Mr Keys has carried out a similar management revolution at Gencor.

"I've cut the staff around me to 54 from 1,700 when I took over three years ago." One entire tier of management was eliminated and younger, more dynamic managers were brought in. The best of Gencor's existing managers, such as Mr Tom de Beer, the finance director, and Mr Eugene van As of Sappi, were given greater freedom and responsibility.

"All I concern myself with here at head office is pondering how to achieve real growth, both by starting or acquiring major businesses and by accelerating the development of our existing ones," Mr Keys said.

His priority is simple: "To maximise the total return, dividends plus capital appreciation, for shareholders."

For Mr Keys, Gencor has one big advantage not shared by his competitors. "In Sanlam we have a major shareholder which is not just willing but enthusiastic about investing its cashflows from insurance premiums and other income into productive investments. It needs a major risk-taker and Gencor fulfils that function."

Over the last three years at least, this symbiotic relationship between Afrikanerdom's main financial institution and the country's second-largest industrial, mining, paper and industrial group, has aided profitability in key sectors of the South African economy.

As such, it is an essential part of the overall rise in South Africa's economic efficiency in response to such external pressures as sanctions, disinvestment and the cut-off from foreign capital.

IEL shares dip over executives' 52% bid

By Chris Sherwell in Sydney

INVESTORS reacted negatively yesterday to a plan by the two top executives of Industrial Equity (IEL) to buy 52 per cent control of the Australian group in collaboration with Mr Abe Goldberg, a local textile magnate.

Shares in the company, of which the Australian Woolworths retail chain is the principal asset, were among the most heavily traded stocks of the day and finished 6 cents lower at A$1.99 in an otherwise steady market.

This is well below the A$2.40 that Mr Goldberg, together with Mr Rod Price and Mr Bill Loewenthal, will pay to Brierley Investments (BIL), IEL's New Zealand former parent, and to the Goodman Fielder Wattie food combine to acquire a 52 per cent stake.

BIL has already sold a 19.3 per cent stake to the trio for A$360m (US$275m) and will sell its remaining 12.7 per cent holding once IEL shareholders approve the plan. Similarly, Goodman Fielder will sell its 20 per cent stake, purchased from BIL last month as part of its abortive IEL takeover plan.

The A$970m transaction, if it goes through, will not only halt this takeover but also Goodman Fielder's planned disposal of IEL assets, including the sale of Woolworths to BIL.

IEL will instead become an independent Australian entrepreneurial company.

Announcement of the proposed deal on Monday also affected Goodman Fielder's shares yesterday. In strong trading, they gained 9 cents to A$2.20 on speculation that the group was once again vulnerable to a takeover.

Ranks Hovis McDougall (RHM), the British food group which called off its bid for Goodman Fielder last month, is thought to remain keen to sell its 15 per cent stake. Other large shareholders include Elders IXL, the brewing and agribusiness giant, with around 11 per cent, and the AMP Society, Australia's largest institutional investor, with more than 8 per cent.

All three shareholders were unhappy over Goodman Fielder's IEL takeover plan, and effectively scuttled it. Yesterday there were suggestions that changes might be on the way in the Goodman Fielder board because of its perceived mishandling of both the IEL and RHM episodes.

The National Companies and Securities Commission (NCSC), the stock market watchdog, was meanwhile reported to be investigating the circumstances under which Goodman Fielder had dropped its announced IEL bid.

The principal beneficiary of the latest developments, as with the Goodman plan, is widely believed to be BIL. Its strategy of deconsolidating IEL remains intact, and in losing the opportunity to acquire full control of Woolworths it can now seek other investment outlets for its estimated NZ$3bn (US$1.7bn) in cash and undrawn facilities.

• PepsiCo of the US has taken full control of Kentucky Fried Chicken (NZ) after buying Goodman Fielder's 50 per cent stake, Reuter adds from Wellington.

No price was disclosed. Kentucky Fried Chicken has 51 outlets in New Zealand with an annual turnover of NZ$90m (US$52m).

• BIL has made a full takeover offer for its 54 per cent held Lane Walker Rudkin Industries (LWR) at NZ$1.75 a share, valuing LWR at NZ$85.1m.

LWR, an apparel and textile manufacturer, closed on the New Zealand Stock Exchange yesterday at NZ$1.51.

Tyndall restructures Clayton holding

By Ray Bashford

TYNDALL HOLDINGS, the UK-based financial services group, is attempting to restore the financial position of its loss-making Australian fund management operations through a deal with Industrial Equity (IEL).

IEL is to acquire a 19 per cent stake in Clayton Robard, whose exposure to the Australian equities market was the prime reason for a £1.2m (US$1.9m) loss by Tyndall last year.

In return, IEL is to sell its Liberty Life insurance group to Clayton for A$10m (US$7.6m), payable in the form of ordinary and preferred shares, and will buy another A$5.3m worth of Clayton Robard shares.

Tyndall, which holds 63.7 per cent of Clayton Robard, will have its stake diluted to between 55 per cent and 60 per cent depending on the outcome of the recently announced two-for-nine rights issue.

IEL has guaranteed to place a minimum of A$100m under management with Liberty in addition to the A$50m the group already controls.

Mr Garnet Harrison, Tyndall's chief executive, said the deal was a significant move towards restoring the fortunes of Clayton Robard in the wake of last year's loss.

IEL is one of Australia's largest private-sector employers and Mr Harrison believes that there is a possibility of expanding the insurance operations through IEL's other interests, especially retailing.

Bond's Sydney building for sale

BOND CORPORATION, the cash-strapped Australian master company of Mr Alan Bond, yesterday put up for sale its prime Sydney office development in the latest attempt to shed assets, writes our Financial Staff.

The company said it would consider offers either for the outright purchase or a joint venture at the 44-storey Bond Building on Chifley Square. The project is due to be completed by the end of 1991.

The group recently sold its half share of the Bond Centre in Hong Kong to EIE of Japan for HK$2.26bn (US$289.7m).

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INTERNATIONAL CAPITAL MARKETS

UK end-investors spurred on by recovery in sterling

By Norma Cohen

UK GOVERNMENT bond prices rose as much as ¼ point in mostly thin and speculative trading, with any genuine buying by investors spurred on by renewed strength in sterling.

Dealers said that genuine end-investors were seen buying longer maturities with price rises at the short end consisting mostly of professionals marking up the value of their inventory.

The markets yesterday were initially divided on how to react to news of a much larger-than-expected £2.24bn drop in UK foreign currency reserves in May, about two to three times the median forecast by City analysts.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	9/92	105-00	+5/32	11.21	11.28	11.37
		8.750	1/96	95-04	+6/32	10.45	10.62	10.70
		9.000	10/08	96-00	+7/32	9.45	9.61	9.70
US TREASURY *		9.125	5/99	105-26	-8/32	8.11	8.12	8.42
		8.875	2/19	108-29	-3/32	8.08	8.10	8.46
JAPAN	No 111	4.600	6/98	95.2540	+0.145	5.39	5.39	5.38
	No 2	5.700	3/07	105.1920	+0.030	5.14	5.14	5.12
GERMANY		7.000	2/99	102.4000	+0.100	6.64	6.73	6.87
FRANCE	BTAN	8.000	1/94	95.1301	-0.040	9.05	8.91	8.84
	OAT	8.125	5/99	95.8600	-0.040	8.74	8.63	8.78
CANADA *		10.250	12/98	105.1250	-	9.28	9.36	9.54
NETHERLANDS		7.000	3/99	99.4100	+0.285	7.08	7.13	7.35
AUSTRALIA		12.000	7/99	92.4046	+0.179	13.40	13.54	13.80

London closing, *denotes New York morning session. Yields: Local market standard. Prices: US, UK in 32nds., others in decimal.

Technical Data/ATLAS Price Sources

Ultimately, however, the markets decided the data boded well since, if the Treasury was prepared to spend that amount of money to defend the pound, it seriously intended to keep the currency within publicly stated bounds. The pound rose through DM3.05, despite strength in the West German currency, a factor that may encourage further buying in gilts.

Separately, the Bank of England announced it would sell Ecu800m in one-, three- and six-month Treasury bills at its regular auction next Tuesday.

■ West German government bonds posted gains of about 35 pfennigs, mostly on a stronger currency and futures-driven buying as arbitrage opportunities emerged on London exchanges. The weaker dollar aided the tone in both currency and bond markets.

The Federal Government's new 6¾ per cent 10-year bond, priced initially at 100¾, traded at 100.35 per cent late yesterday and was said to be nearly sold out.

Separately, dealers said there was disappointment at the Bundesbank's announcement yesterday that the tender for its repurchase agreement, set for today to replace DM34.1bn in maturing funds, would consist of a floating rate tranche in addition to the previously announced fixed-rate tranche.

Last week, the announcement of a fixed-rate tender at 6.60 per cent was greeted warmly by the market.

Portuguese groups lose listings

A TOTAL of 21 Portuguese companies have lost their listings on the Lisbon and Oporto official stock exchanges, because of inadequate liquidity after the 1987 crash, Reuter reports from Lisbon.

The companies – four previously quoted on the Lisbon exchange, six on the Oporto exchange and 11 on both – will now be listed on the unofficial stock market.

Stock market officials said lack of liquidity in 1988 and the first half of this year meant the companies did not meet official requirements and now lose fiscal incentives. The companies may have the option of reapplying later to the official market, they said. About 300 companies are listed in Lisbon and Oporto.

The companies excluded in Lisbon were Refrige, Emasa, Persuinos, Racoes Progado, Fepsa, Texteis Moura e Matos, Estamparia Imperio, Textil Luis Correia, Texteis Atma, Petroleo Mecanica Alfa, Servicos de Telecomunicacoes Electronicas, Opca, Transmotor, Jupiter and Transinsular.

Those named in Oporto were Refrige, Racoes Progado, Fepsa, Cortadoria Nacional de Pelo, Estamparia Imperio, Nuno Mesquita Pires, Agloma, Texteis Atma, Petroleo Mecanica Alfa, Servicos de Telecomunicacoes Electronicas, Opca, Ibersol, Transmotor, Transinsular, Textil Luis Correia and Robotica.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on July 4

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield	YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alberta 9⅛ 95	600	103⅛	103½	0	+0⅛	8.67	Canada 6⅛ 91	80	101	101¼	+0⅛	0	5.36
Austria 9⅝ 93	140	†102⅞	103⅜	+0¼	+0⅞	8.58	Canada 5⅝ 93	80	101	101¼	+0⅛	-0⅛	5.31
B.F.C.E. 7 92	150	95⅛	95⅞	0	+0⅛	8.84	Eurofima 5 1995	20	97¼	98⅛	0	-0⅛	5.43
B.F.C.E. 9¼ 95	150	102¼	102⅝	0	+0½	8.73	E.I.B. 4⅞ 93	30	98	98¼	0	-0¼	5.44
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

* No information available–previous day's price

† Only one market maker supplied a price

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date of conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Japanese banks set to reschedule China loans

By Robert Thomson in Tokyo

JAPANESE BANKS have begun broad reviews of their exposure to Chinese financial institutions and expect that rescheduling of some loans is "inevitable" because of the economic consequences of the recent turmoil.

Officials at several banks said that serious problems were expected with loans for such projects as business complexes and joint venture hotels. These have traditionally been a significant source of involvement for foreign banks, whose opportunities have been limited in China.

Bankers said that short-term credit facilities had already been reviewed and lending limits lowered in some cases, and that a larger reevaluation of the China risk was now underway. While most bank officials presume that lending to China will be more cautious, there is a contrary belief that the present situation offers opportunities for an expansion of the relationship with Peking.

The Bank of Japan has advised banks to show prudence similar to that of such institutions as the World Bank, which has been reassessing its China commitments. Japanese banks' long and medium-term exposure to China is estimated at $6.1bn, and much of that money has been committed to the many joint venture hotels and foreign housing complexes that now face low occupancy rates following a sharp fall in tourism.

Long-Term Credit Bank of Japan said that most tourism-related ventures were certain to face difficulties in repayment of outstanding loans. Kyowa Bank said it presumed that rescheduling of large loans for hotel projects would be necessary in coming months, and that it was "worrying" about its stance.

"Rescheduling is inevitable," one banker said. "These hotels need occupancy rates of 50 per cent or more and the rate now is way down. If the approaches haven't started informally already, the Chinese partners will probably want talks very soon."

Bankers here are particularly interested in the prospects of the China International Trust and Investment Corporation (Citic), the state-run investment agency that has overseen and guaranteed many joint venture projects and had close ties with Zhao Ziyang, the disgraced former Communist Party chief.

Citic staff were prominent among pro-democracy protesters in Peking, and the central Government was concerned that its borrowing and that of provincial investment trusts had been excessive. Rescheduling of loans from Japanese banks had been raised by a few Chinese companies that had overcommitted themselves on joint venture projects even before the crackdown.

The Chinese Government's fears were prompted by its growing annual foreign debt obligations, estimated at $3bn last year, and expected to rise to $7bn for next year, and to $12bn for 1992. In recent days, Japanese credit rating agencies have been reviewing the ratings assigned to Chinese bond issues in Japan, mainly in yen-denominated bonds, as well as Euro-yen issues, and shogun (foreign currency) bonds.

Included in 14 issues being scrutinised by the Japan Bond Research Institute, a rating agency, are three by Citic, which has had an AA rating, and five by the Bank of China, the state-run foreign exchange bank, which has had an AA plus rating.

Swiss 'must give up bank cartels'

SWISS BANKS must be ready to abandon cartel structures if they are to avoid exclusion and remain competitive in a financial "Fortress Europe" in the European Community, according to Mr Jean Zwahlen, Swiss National Bank director, Reuter reports from Berne.

The EC's intention to give reciprocal rights to non-EC banks and to facilitate universal banking would mean Swiss banks could hold their own in Europe, Mr Zwahlen said.

But he warned that Swiss banks would have to give up cartel structures and take more risks to remain competitive. He said that Switzerland's liberalised capital flow, strict capital adequacy standards and acceptance of the principle of reciprocity for foreign banks were already compatible with EC standards.

Banking supervision laws needed to be extended in Switzerland to cover other underwriters, but the SNB was keen to ensure that stricter application of banking laws did not hinder competition in new issues, he added.

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INTERNATIONAL CAPITAL MARKETS

Swedish Export is first to tap the offshore market

By Katharine Campbell

FOLLOWING this week's lifting of exchange controls in Sweden, Swedish Export Credit Corporation became the first domestic entity to tap the offshore market with an issue that the lead manager reckoned would take a while to be assimilated.

Svenska International led a five-year SKr500m straight bond which bears an 11 per cent coupon and was priced at 101 to yield 5 basis points under equivalent government securities. By mid-afternoon, the issue was trading on full fees at a discount of 1¾ per cent to the issue price, just 3 basis points under governments. The issue is not swaped.

Aimed at "traditional Benelux investors," the paper was priced between 15 and 18 basis points more generously than the handful of previous Eurokrona issues – which have been for supranational entities such as the World Bank.

An official at Svenska noted that the borrower would have had to pay about 20 basis points more to issue in the domestic market.

African Development Bank's first foray into matador paper went well on the back of continued investor enthusiasm for peseta paper after the currency's recent entry into the European Monetary System.

The seven-year issue, for Pta10bn, pays a coupon of 12.5 per cent which the market deemed generous, even bearing in mind it counts as subordinated debt. It traded briskly yesterday, quoted inside fees at a ¼ point discount to issue price.

Many European investment accounts, restricted to taking EMS paper, have been keen buyers. One trader noted that the ADB paper was yielding 55 or 60 basis points over supranational five-year matadors, which had helped it along considerably.

It is rumoured that Council of Europe, the European Investment Bank and Eurofima are all queuing at the Bank of Spain's doors.

Meanwhile, in the sterling floater market, CSFB brought a £150m deal backed by UK residential mortgages for the Household Mortgage Corporation.

The lead manager said the terms, 18 basis points over the London 3-month interbank offered rate, were tight, but that the paper distributed well in continental Europe as well as in the UK. "We launched this to sell on the bid side of the secondary market," he noted, adding that the deal was "close to break even" in terms of rewards for those involved.

The paper was trading at 99.85, within fees of 19 basis points.

Other market participants noted that the terms might have been more generous, considering the long average life of 8.9 years on the repackaged mortgages. *CSFB countered* that its conservative prepayment assumptions, at 12.5 per cent annually compared with around 25 per cent on earlier issues, mitigated that effect.

In the equity warrant sector, Nomura led two four-year deals which, though on similar terms, traded rather differently. Toa Steel's $100m bank-guaranteed deal was up at a 2.5 per cent premium to the par issue price, where the $130m issue for trading company Kanematsu-Gosho, also carrying a bank guarantee, was quoted at a ⅜ per cent discount to par, though still very comfortably within fees.

Both carry an indicated 4.5 per cent coupon (to be finalised on July 11.)

Meanwhile, Nikko Switzerland Finance caused a mild stir in the Swiss warrants market by a slightly novel way of sharing the underwriting rewards. For the first time the Japanese *house split the lead management spot* (including the books) right down the middle *with a Swiss house, Bank* Julius Bär. Terms of the five-year issue, SFr120m for Toa Steel, will be set on July 10.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
STERLING						
HMC Mortgage Notes 4(h)‡◆	150	18bp	100	2021	19/10bp	CSFB
SWEDISH KRONOR						
Swedish Export Credit(a)◆	500	11	101	1994	1⅞/1⅛	Svenska International
US DOLLARS						
Kanematsu-Gosho#	130	(4½)	100	1993	2¼/1½	Nomura Int.
Toa Steel Co.#	100	(4½)	100	1993	2¼/1½	Nomura Int.
PESETAS						
African Development Bank(a)◆	10bn	12½	101	1996	1⅞/1½	J.P. Morgan Espana
SWISS FRANCS						
Toa Steel Co.(b)★★§	120	(½)	100	1994	1⅝	Nikko(Switz)/Bk J. Baer
Remy Finance BV(c)★★◆	110	4½	100	1995	1⅝	SBC
Honshu Paper Co.(d)★★§	100	Zero	100	1993	n/a	Credit Suisse
Shinshu Jusco Co.(e)★★§	35	½	100	1994	n/a	SBC
Isolite Insulating(f)★★§	30	(½)	100	1993	1⅝	SBC
D-MARKS						
Deutsche Finance(g)◆	500	7	(g)	1994	1¼	Deutsche Bank
YEN						
Ind. Bank of Japan(i)◆	12bn	8.4	102¼	2004	2¼/1½	IBJ International

★★Private placement. #With equity warrants. §Convertible. ‡Floating rate notes. ◆Final terms. a) Non-callable. b) Indicated yield to put 4.232%. c) Each SFr50,000 has 93 warrants, each can be exercised into 1 share of Piper-Heidsieck at FFr2,500 each. d) Yield to put 4.019%. e) Yield to put 4.061%. f) Indicated yield to put 4.217%. g) Fungible with DM1bn issue launched in early June after payment date on 27 July. h) 18bp over 3-month Libor, after 10 years increases to 50bp. Call at par from 1992. i) Coupon payable in A$. Additional Y8bn on tap.

Rolling interest guarantees 'inefficient'

By Stephen Fidler, Euromarkets Correspondent

ROLLING INTEREST guarantees, such as those proposed to provide credit enhancement under a new international debt initiative, are an inefficient use of the resources of the International Monetary Fund and the World Bank, according to research from Salomon Brothers, the New York securities house.

Bonds carrying such rolling guarantees would probably trade poorly and impede the return of borrowers to the capital markets, Salomon says in a corporate bond research document.

Under the debt initiative launched in March by US Treasury Secretary Mr Nicholas Brady, commercial banks would be encouraged to swap their loans to developing countries with IMF economic programmes for bonds carrying either a lower face value or lower interest payments.

The credit quality of these substitute bonds would be enhanced by providing collateral for the principal repayments and support for perhaps two years' worth of interest payments. If the borrowing country met its obligations on the bonds in a specific year, the support would then be rolled forward for a further year – a so-called rolling guarantee.

The research cites the common perception that a bond exchange completed last year for Mexico would have been more successful if some of the interest on the replacement bonds had been guaranteed, rather than simply the principal. However, Salomon says that the cost of providing that support would have largely offset the pricing advantage Mexico would have gained.

It cites a theoretical argument under which it claims to show "that under reasonable assumptions approximately half the cost of a rolling guarantee is lost from inefficiency." The difficulties in assessing the proper valuation for such guarantees would lead potential holders to assume a minimum value for them.

Montreal sees futures US style

Ted Jackson on plans for a Canadian government bond contract

The Montreal Exchange is hoping to bring the Government of Canada bond market into the age of financial futures trading.

Come September, the ME will try to score a triumph over its arch rival, the Toronto Stock Exchange, by launching a 10-year Government of Canada bond contract. The new contract is closely modelled on the US Treasury note future traded on the Chicago Board of Trade.

Since Canada is one of the few leading government bond markets without a futures offset, Canadian traders and portfolio managers say such a contract is long overdue. But because the Toronto Stock Exchange tried launching a long bond contract five years ago, and failed miserably, there remains a great deal of scepticism about whether the ME's efforts will pay off.

The ME has already had some experience with fixed-income derivative products, having for years offered exchange traded options on Government of Canada bonds. More recently, the exchange launched a three-month bankers acceptance future.

While the Montreal Exchange touts the BA contract as a success, the reality is somewhat different. Compared to the C$40bn of outstanding Canadian BAs, volume is very low. Average daily trading in 1989 has been only 100 BA contracts, or C$100m face value.

"One of the problems is that, at many firms . . . the person trading futures is also trading the cash market," says Mr Brian Blundon, vice president of money markets at Barclays Bank of Canada. "When it gets busy, they trade the cash and forget about the futures."

Mr Blundon does not trade the BA futures and knows few people who recommend them for hedging. But the contract does seem to be slowly catching on. The Royal Bank, Canada's largest, has recently assigned someone to trade the contract full time.

When the Toronto Stock Exchange launched its long-term Government of Canada bond contract five years ago, there was much hope that it would prove successful. The contract is still listed on the TSE, but the open interest, the number of contracts outstanding, is zero.

The mistakes made at the TSE left many people with sour tastes in their mouths and swearing they would never support another bond contract in Canada again.

One of the many problems with the TSE's attempt was its decision to launch a long bond contract. Nobody anticipated that stripping for zero-coupon bonds in the cash market would wreak havoc with attempts to arbitrage between the cash and futures markets.

The problem proved to be that the bond which was cheapest to deliver against the futures contract at settlement was also sometimes the bond most attractive to strip. This led dealers to hoard the bonds and strip them for sales through their retail branch networks.

When traders couldn't get their hands on the bonds they wanted for delivery, they had to deliver other bonds and lost money. The TSE changed the contract specifications, but the change in mid-stream, together with all the losses along the way, killed the chances of the contract's success.

Ten-year bonds do not get stripped, so there will not be a similar problem at the ME. The ME is also likely to restrict deliverable bonds to those issues of at least C$750m in size in order to ensure availability.

Aside from being able to learn from the TSE's mistakes, the ME has good timing on its side. International investors could be crucial to its success, since there has been a sharp upswing in international trading of C$ bonds in recent years. Trading futures could be a more efficient way for foreigners to trade in the Canadian bond market.

Foreigners have dramatically increased their trading of Government of Canada bonds since the TSE tried to launch its contract. Trading by non-residents rose from about C$9bn in 1984 to C$80bn last year, according to Statistics Canada. The strong C$ has been the chief reason for the surge in trading. Also, the recently signed Free Trade Agreement with the US is widely viewed internationally, especially in the Far East, as a big plus for Canada.

"There is a great deal of overseas interest in Canada, which is helping us with the bond contract," said Ms Kathrine McKay, head of fixed income derivative products at powerful bond dealer ScotiaMcLeod in Toronto.

Ms McKay has just returned from what she describes as a successful tour of Europe to promote the ME's contract. She was accompanied by representatives from other Canadian dealers and ME officials.

Dealers should find the contract useful if they can get in and out quickly and in decent size. Hedging Canada bond positions is an art when compared to hedging in the US Treasury bond market, where all an anxious trader has to do is pick up the phone and sell futures.

For Canada bond dealers who find themselves long in large size and who suddenly do not like the market, there is no perfect hedge. Often they sell US Treasury futures against their Canada bond positions.

That is known locally as "the Texas chainsaw hedge" and is hardly worry-free. There is the currency risk and, while Canadian and US bond prices tend to move in the same direction, they do not move in lockstep.

Another factor that should help is the 1987 deregulation of Canada's brokerage industry, which allowed foreign brokers to import capital and start up in Canada for the first time in 20 years.

US dealers First Boston and Goldman Sachs have set up Canada bond trading desks in Toronto over the past two years. Since Canadian dealers are relatively inexperienced when it comes to futures, the US expertise has proved valuable in designing the ME's contract.

Goldman was instrumental in persuading the ME to go with a 10-year instrument. The ME's contract should be for a 10-year maturity, Goldman pointed out, because it would facilitate international interest rate arbitrage trading. Most other government bond futures are for 10-year bonds.

First Boston has a seat on the ME, while Goldman's New York office is reportedly still debating whether or not to set up a Montreal office. Mr Jaimie Kiernan, Goldman Sachs Canada's president, is decidely upbeat on the prospects for the new bond contract.

"My feeling is that there is a good chance for this contract to get successfully off the ground," he says.

Prominent among the Canadian dealers who have pledged to support the contract are ScotiaMcLeod, Wood Gundy and Nesbitt Thomson Deacon.

The ME says that it will "round up about 50 locals," floor traders who will speculate in the bond pit, committing their own capital and helping create liquidity. But, given the traditional difficulty Canadian futures exchanges have had in recruiting locals, the ME's figure is widely viewed as excessively optimistic.

Mr Mark Phillips, chief international bond salesman at Goldman Sachs in New York, recently told a group of Toronto traders and money managers that the role of the locals in creating liquidity is somewhat overblown. His experience with the launching of the French, West German and Japanese government bond futures showed him that a great deal of the initial liquidity came from cash to futures arbitrageurs playing off dealers.

Mr Phillips expects that these arbitrageurs will welcome the opportunity to play the new Canada bond contract, especially since the relationship between cash and futures has become so efficient in other markets that there is little arbitrage opportunity left.

The toughest sell is going to be with Canada's notoriously conservative institutional money managers, who are much *less familiar* with the futures markets than their US counterparts. However, research by US consultants Greenwich Associates shows that Canadian institutional investors with more than C$500m in bonds under management are very interested in increasing their use of interest rate futures and options.

A lot has changed since the TSE's ill-fated attempt five years ago, but scepticism runs high. Canada has a spotty record when it comes to launching financial futures contracts.

The general feeling is that the ME's new contract must trade about 2,000 contracts daily ($200m face value) in the first few weeks, or it won't fly.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

These indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

	EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Tuesday July 4 1989 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at (25%)	Est. P/E Ratio (Net)	xd adj. 1989 to date	Mon Jul 3 Index No.	Fri Jun 30 Index No.	Thu Jun 29 Index No.	Year ago (approx) Index No.
1	CAPITAL GOODS (206)	959.54	+0.4	11.02	4.17	11.15	15.85	956.11	952.10	962.66	796.56
2	Building Materials (29)	1185.34	—	12.08	4.45	10.21	25.70	1185.75	1180.66	1193.22	1003.10
3	Contracting, Construction (37)	1610.61	+0.3	14.60	4.36	8.99	32.37	1605.45	1596.91	1620.99	1591.64
4	Electricals (9)	2847.12	+0.8	8.38	4.04	14.72	58.60	2824.35	2788.08	2815.93	2088.97
5	Electronics (30)	2191.26	+0.4	9.01	3.38	14.48	23.92	2182.12	2198.93	2217.76	1736.75
6	Mechanical Engineering (55)	531.18	+0.8	10.05	4.01	12.25	8.48	526.99	523.48	529.81	414.75
8	Metals and Metal Forming (6)	513.04	+0.1	19.94	5.80	5.50	3.02	512.57	509.85	516.40	587.33
9	Motors (17)	325.69	—	11.37	4.66	10.32	6.83	325.76	323.08	326.53	280.40
10	Other Industrial Materials (23)	1650.63	+0.4	9.17	4.23	13.04	30.21	1643.97	1633.10	1642.68	1321.37
21	CONSUMER GROUP (187)	1240.18	+0.6	8.92	3.63	14.02	19.18	1232.55	1224.23	1237.63	1096.32
22	Brewers and Distillers (22)	1357.85	+0.6	10.01	3.57	12.56	19.65	1349.37	1337.36	1355.84	1118.47
25	Food Manufacturing (20)	1109.02	+0.9	9.16	3.76	13.67	18.43	1099.58	1094.25	1099.86	989.50
26	Food Retailing (15)	2355.16	+0.4	8.76	3.24	14.95	25.59	2346.49	2330.22	2347.74	2032.34
27	Health and Household (14)	2254.29	+0.9	6.58	2.64	17.25	22.08	2233.84	2216.19	2259.46	1864.55
29	Leisure (33)	1659.42	+0.5	7.48	3.37	16.74	28.79	1651.19	1642.63	1659.44	1335.87
31	Packaging & Paper (15)	570.14	+1.1	10.19	4.31	12.41	8.30	564.17	560.35	562.10	526.11
32	Publishing & Printing (19)	3534.03	+0.3	8.75	4.71	14.43	71.88	3524.45	3505.74	3525.66	3476.48
34	Stores (34)	818.27	+0.4	11.08	4.41	11.81	16.19	815.27	809.46	818.53	810.17
35	Textiles (15)	543.18	+0.7	10.95	5.34	10.92	14.97	539.47	537.56	538.76	601.29
40	OTHER GROUPS (93)	1116.46	—	10.23	4.21	11.89	14.44	1116.57	1112.36	1131.07	912.12
41	Agencies (17)	1372.79	−0.1	7.32	2.37	16.91	15.02	1374.54	1380.86	1407.60	1170.50
42	Chemicals (22)	1282.54	—	11.12	4.65	10.61	26.60	1282.67	1277.66	1291.70	1102.31
43	Conglomerates (13)	1656.41	+0.6	10.17	4.90	11.50	26.22	1646.53	1635.11	1656.58	1202.00
45	Transport (13)	2460.98	+0.4	8.70	3.66	14.92	39.22	2452.32	2437.98	2465.46	1901.70
47	Telephone Networks (2)	1059.33	−0.4	11.77	4.69	11.02	2.76	1063.57	1062.51	1092.89	998.13
48	Miscellaneous (26)	1656.51	−0.3	9.61	3.59	11.80	23.85	1661.69	1651.86	1674.38	1186.73
49	INDUSTRIAL GROUP (486)	1152.70	+0.4	9.87	3.94	12.58	17.33	1148.46	1142.49	1156.95	980.23
51	Oil & Gas (14)	2139.92	+0.5	9.93	5.23	13.39	52.03	2129.64	2098.35	2222.01	1810.48
59	500 SHARE INDEX (500)	1236.84	+0.4	9.88	4.12	12.61	20.18	1231.31	1223.34	1238.59	1050.72
61	FINANCIAL GROUP (124)	733.49	+0.5	–	5.38	–	17.86	729.69	724.17	732.58	710.91
62	Banks (8)	721.37	+0.6	24.48	6.66	5.36	21.71	716.99	712.31	725.60	685.14
65	Insurance (Life) (8)	1073.42	+0.5	–	5.56	–	29.86	1068.32	1050.57	1058.61	1053.73
66	Insurance (Composite) (7)	577.61	+0.7	–	6.23	–	16.75	573.76	569.21	578.05	558.21
67	Insurance (Brokers) (7)	962.22	−0.4	7.85	6.45	17.14	31.63	966.35	955.37	970.78	1082.31
68	Merchant Banks (11)	331.49	+0.1	–	4.69	–	7.30	331.07	332.06	334.41	356.61
69	Property (52)	1311.57	+0.5	6.35	2.92	20.08	16.19	1305.33	1296.15	1302.00	1224.58
70	Other Financial (31)	360.95	+0.6	11.49	6.08	11.08	8.59	358.75	357.37	359.03	309.98
71	Investment Trusts (69)	1159.13	+0.2	–	2.82	–	14.72	1156.76	1149.69	1158.78	912.56
81	Mining Finance (2)	664.96	+1.2	8.67	3.86	12.84	10.45	656.88	658.47	661.24	534.79
91	Overseas Traders (8)	1330.33	+0.3	11.24	5.58	10.11	35.07	1326.52	1318.54	1326.78	1170.13
99	ALL-SHARE INDEX (703)	1113.40	+0.4	–	4.26	–	19.41	1108.83	1101.68	1114.89	962.35

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Jul 3	Jun 30	Jun 29	Jun 28	Jun 27	Year ago
FT-SE 100 SHARE INDEX‡	2174.4	+8.8	2176.8	2172.3	2165.6	2151.0	2182.0	2209.4	2206.4	1854.8

FIXED INTEREST

	PRICE INDICES	Tue Jul 4	Day's change %	Mon Jul 3	xd adj. today	xd adj. 1989 to date
	British Government					
1	5 years	117.56	+0.16	117.37	–	6.18
2	5-15 years	131.82	+0.26	131.56	0.08	7.04
3	Over 15 years	143.37	+0.42	142.77	–	7.09
4	Irredeemables	165.54	+0.58	164.58	–	7.32
5	All stocks	129.94	+0.25	129.67	0.04	6.85
	Index-Linked					
6	5 years	136.50	+0.06	136.41	–	1.36
7	Over 5 years	134.48	+0.18	134.24	–	1.88
8	All stocks	134.52	+0.17	134.29	–	1.82
9	Debentures & Loans	112.93	+0.21	112.88	0.18	6.16
10	Preference	87.77	+0.02	87.75	–	3.20

	AVERAGE GROSS REDEMPTION YIELDS		Tue Jul 4	Mon Jul 3	Year ago (approx.)
	British Government				
1	Low	5 years	9.96	10.05	9.35
2	Coupons	15 years	9.36	9.40	9.40
3		25 years	9.20	9.25	9.20
4	Medium	5 years	10.79	10.85	9.81
5	Coupons	15 years	9.84	9.88	9.62
6		25 years	9.41	9.45	9.41
7	High	5 years	10.92	10.98	9.89
8	Coupons	15 years	10.06	10.09	9.79
9		25 years	9.61	9.64	9.49
10	Irredeemables†		9.23	9.28	9.46
	Index-Linked				
11	Inflation rate 5%	5yrs.	3.76	3.77	2.70
12	Inflation rate 5%	Over 5 yrs.	3.70	3.71	3.87
13	Inflation rate 10%	5yrs.	2.99	3.00	1.71
14	Inflation rate 10%	Over 5 yrs.	3.53	3.54	3.71
15	Debs &	5 years	12.05	11.97	10.86
16	Loans	15 years	11.70	11.65	10.84
17		25 years	11.35	11.33	10.84
18	Preference†		10.32	10.29	9.57

‡Opening index 2174.5; 10 am 2176.7; 11 am 2175.2; Noon 2173.9; 1 pm 2173.5; 2 pm 2173.4; 3 pm 2173.7; 3.30 pm 2174.2; 4 pm 2174.6 (a) 9.53am (b) 10.31am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 34p. CONSTITUENT CHANGES: Magnet (2) has been deleted and replaced by Barratt (Henry) (6).

LONDON RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -	Net Div.	Times Covered	Gross Yield	P/E Ratio
[illegible]	F.P.	-	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
130	F.P.	-	141	130	§Fanpel Trading 5p	135	+2	14.88	2.4	4.9	10.3
§160	F.P.	-	183	178	Gourlays 10p	178		6.66	1.5	5.0	18.0
160	F.P.	-	206	160	§Hadleigh Inds. 50p	201	-2	4.5	3.1	3.0	11.9
◻	F.P.	-	110	104	Jersey Phoenix Tst.	110	+1	N3.84	-	4.7	-
Ir76	F.P.	-	77	65	§Kingspan Gp Ir20p	74	-2	L1.71	3.6	3.1	9.7
§58	F.P.	-	66	56	§Miskin Group 20p	58		Wd1.38	4.5	3.2	7.7
	F.P.	-	£11⅞	£11¼	Mitsubishi Tst & Bank Y50	£11⅞	-⅛	Q16%	8.2	3.1	39.3
§55	F.P.	-	60	55	§Molyneux Estates	58		-	-	-	79.1
†	F.P.	-	55½	45½	§Oliver Resources Ir5p	52	-½	-	-	-	-
90	F.P.	-	108	90	§Plastiseal 5p	103	+2	13.78	2.3	4.9	12.0
105	F.P.	-	120	111	§Smith (James) Estates	119		a3.0	0.9	3.4	35.2
§60	F.P.	-	67	63	§TLS Range 5p	66		u2.7	1.1	5.5	12.8
§30	F.P.	-	43	37	*Tavern Leisure 20p	41		-	-	-	-
200	F.P.	-	206	203	Templeton Inv. Tst. Units	205		-	-	-	-
†	F.P.	-	£87⅞	£85¼	Topdanmark DK100	£87⅞	+⅛	Q10%	12.8	9.4	8.4
§125	F.P.	-	138	135	Trace Computers 5p	135		R1.3	6.0	1.3	13.6
§107	F.P.	-	130	110	§Treatt 10p	121		b3.25	2.9	3.6	12.5
670	F.P.	-	86	76	§Wensum Co. 5p	83		L2.94	1.8	4.7	11.5

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price £	+ or -
‡	Nil	27/7	65pm	52pm	Anglo Grp. 9½pc Cv.Bds. 1999	57½	+2
100p	F.P.	-	108p	102p	Carlton Comms. 6.5p (Net) Cv.Rd.Pf 5p	107p	+4
100p	F.P.	28/7	104p	100p	Hartwell 7¾p (Net) Cv.Pf. £1	100p	-1
-	F.P.	-	100⅛	99⅞	N'wide Anglia 13¼pc 23.4.90	99⅞	
-	F.P.	-	100	98⅞	Do. 13pc Bds 14.5.90	98⅞	
-	F.P.	-	100	99	Do. 13⅞pc Bds 4.6.90	99⅞	
-	F.P.	-	100⅛	100	Do. 14⅛pc Bds 2.7.90	100⅛	
§99.1	£25	-	28¼	25	Do. 4.25pc Index-Linked 2024	27¼	+¼
#420p	Nil	-	25ppm	10ppm	Tipbook Units	10ppm	
§100p	Nil	25/7	13ppm	1½ppm	WPP 8.25p Cv.Rd.Pf. 10p	1½ppm	

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1989 High	1989 Low	Stock	Closing Price p	+ or -
125	Nil	-	16pm	14pm	Avesco 1p	15pm	+1
500	Nil	-	70pm	61pm	Avon Rubber	61pm	-3
170	Nil	-	26pm	18pm	Bardon Group 10p	19½pm	+½
9	6	8/9	11pm	7½pm	Bear Brand	10¼pm	
62	Nil	2/8	8pm	3pm	§Eadie Hldgs.	3pm	
61	Nil	27/7	12pm	7½pm	Fife Indmar	12pm	
10	Nil	10/8	28pm	13pm	§Global Group 10p	18pm	-2
78	Nil	16/8	28pm	9pm	Midland & Scottish Resources	28pm	+2
35	Nil	-	8pm	5pm	Panfida Grp. 25p	8pm	
35	Nil	-	8pm	5pm	Do. (Existing Offer) 25p	6pm	
220	Nil	7/8	20pm	8pm	Plaxton Group	8pm	
435	Nil	4/8	74pm	49pm	RTZ 10p	56pm	+7

a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. s Dividend and yield exclude special payment. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. H Dividend and yield based on Prospectus or other offical estimates for 1989. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on Prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989/90. Q Gross. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. ♦ Issued by tender. ‡ Offered to holders of ordinary shares as a "rights". † Introduction. § Placing price. †† Reintroduction. ¶ Issued in connection with reorganisation merger or takeover. ‡ Allotment price. # Unlisted securities market. ♦ Official London listing. ◻ Including warrants entitlement. * Third Market.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	103	0	5
Corporations, Dominion and Foreign Bonds	10	1	30
Industrials	467	264	899
Financial and Properties	195	91	373
Oils	25	27	42
Plantations	0	1	10
Mines	39	54	40
Others	48	89	114
Totals	887	527	1,512

TRADITIONAL OPTIONS

- First Dealings Jun 26
- Last Dealings Jul 7
- Last Declarations Sep 28
- For settlement Oct 9

For rate indications see end of London Share Service

Calls in Marley, JFB, Tusker, Mid & Scot, Inchcape, Bula, Oliver Res, Adanan, Bute, Conroy, Campari, Polly Peck, Leisure Inv, Honorbilt. Puts in New Eng Prop, Tusker. P/C Tusker.

LONDON TRADED OPTIONS

BEECHAM stole a good deal of the interest on the London Traded Options Market yesterday, although the continued downward drag on the *FT-SE 100 Index* exerted by the September future contract on the index stole almost *more thunder from the options* market than the options market raised itself.

It would have taken more thunder had it not been for the idea that Beecham, the UK pharmaceuticals company, might, on the *merger projected with SmithKline*, the US company from the same broad field, gain entry to the Standard & Poor's 500 Index. The price of the underlying shares in Beecham rose 16p on the day to 651p. A notable feature was that *options turnover in the stock of* 1,088 contracts was contained entirely on the call side, with an *overall closing of call positions of* 353 contracts to 9,115. The most *actively traded series in the stock* was the July 600 call, which saw 527 contracts, and a closing of open interest to 1,849, from 2,026.

The extension of the options *index contract for periods up to* June next year – introduced the previous day – continued to leave the market some distance in its wake, though there was *again tentative business in the* longer-dated series. The index *itself recovered a further 8.8* points on balance to 2,174.4, in spite of the fact that the September expiry on the index future continued to exert a strong downwards *drag on it. It was helped by* a better performance from the pound and by a slightly softer tone in the international cost of short-term sterling deposits.

Overall market turnover came to no more than 26,821 contracts, comprising 19,029 calls and 7,792 *puts*. This was a low level even by standards set since the crash *of October 1987.*

British Telecom was the most actively traded *options stock*, on 2,574 contracts, of which 1,047 were calls and 1,527 puts, with the February 240 puts alone finding 1,165, and representing *almost entirely opening of position*. There was, however, opening of interest on both call and put sides in the stock option. Storehouse saw 1,687 contracts *handled, and BP 1,491.*

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Allid Lyons (*458)	420	42	57	64	1½	5	9
	460	9	27	39	12	18	23
	500	2	11	20	45	46	48
Brit. Airways (*206)	180	29	35	38	1	2	3½
	200	9½	18	26	2½	6½	8
	220	2	11	16	16	18	19
Brit Com (*168)	140	30	36	40	2	3	5
	160	12	22	24	3	9	14
	180	3	12	14	16	18	22

Option		Calls Jul	Calls Oct	Calls Jan	Puts Jul	Puts Oct	Puts Jan
Storehouse (*159)	140	18	25	29	4	7	8
	160	6½	13½	18	14	15	17
Trafalgar (*351)	347	12	27	33	7	13	20
	377	3	14	18	28	30	38
Utd. Biscuits (*374)	330	45	61	69	1½	5	8
	360	18	37	48	6	12	16
	390	7	20½	31	21	26	30

Option		Calls Jul	Calls Sep	Calls Nov	Puts Jul	Puts Sep	Puts Nov
ASDA Grp. (*179)	160	23	27	31	2	3½	4½
	180	7	13	18	7	10	12
Gateway (*238)	220	20	20	20	1	1	1½
	240	4	5	5	6	6	6
Option		**Sep**	**Dec**	**Mar**	**Sep**	**Dec**	**Mar**
Amstrad (*82)	80	13	17	19	8	10	13
	90	8	12	14	14	16	18
Barclays	420	40	50	64	6	9	14

[illegible]

UK COMPANY NEWS

Illingworth Morris chairman considers £36m minority bid

By Andrew Hill

MR ALAN LEWIS, chairman and controlling shareholder of Illingworth Morris, the Yorkshire wool textile group, is considering paying £36.3m for the 49 per cent of the company he does not already own.

Illingworth – which makes, among other things, cloth for covering tennis balls and snooker tables – yesterday issued a holding statement confirming it had received an approach from Mr Lewis.

An offer would be made at 185p, valuing the whole company at about £74m.

Mr Lewis was unavailable to comment on his plans, but a further announcement is expected "in a matter of days", according to the company.

Last October, talks about a possible bid from Allied Textile, which also has substantial interests in wool textiles, broke down, apparently on the issue of price and the prospects of breaking Illingworth up.

Then, the shares, which had risen as high as 225p on news of the talks, plummeted to 137p. Yesterday they climbed 28p to 170p.

It was rumoured last year that plans for a management buy-out backed by a US specialist bank had been shelved because of the increase in interest rates – but Mr Lewis could probably fund the purchase of the minority stake from his own resources.

Illingworth's results for the year to March 31 are overdue by about a fortnight, and industry analysts were expecting a reduction in profits to less than £9m compared with last year's figure of £9.7m before tax.

Alan Lewis: could fund purchase from own resources.

They speculated yesterday that Mr Lewis, who took control in 1983 after an acrimonious takeover battle, might prefer to buy the company and build it up as a private group before returning it to the market under more favourable conditions.

In December, when the group announced a 5 per cent increase in interim pre-tax profits to £4.55m, Mr Lewis stressed he had no intention of selling his stake in the foreseeable future.

Bid speculation has surrounded the company since Mr Lewis transferred his stake last year to a family-based trust in the Netherlands Antilles, for tax reasons.

Troubled Moss Trust parts company with brokers

Concern over delayed results

By Vanessa Houlder

MOSS TRUST, the troubled USM-traded advertising agency, has delayed the long-awaited announcement of its revised results for 1987-88, which were expected yesterday.

At the same time, Moss revealed that it had parted company with its broker, Bell Lawrie, who had been replaced by Henry Cooke Lumsden.

Bell Lawrie said it had resigned over the decision to delay the results, contrary to its advice. Furthermore, it was concerned about the impending resignation of the chairman at the forthcoming extraordinary general meeting.

Mr John Drysdale, a corporate finance director of Bell Lawrie, said: "We do not regard it as being in the best interests of the company that the results have been further delayed and we were not happy with the proposed changes at the top."

Mr John Cooper, chairman, said the change of broker followed a decision to appoint a local firm. "The feeling was that it was appropriate to have a Yorkshire-based broker and Henry Cooke Lumsden was considered totally appropriate in that connection," he said.

He declined to comment on whether he planned to resign. A former non-executive director, he was appointed acting chairman in March.

The postponement of the results, which are now expected to be announced on July 14, follows a series of setbacks that have afflicted the company in recent months.

In February, Moss had to postpone its annual meeting after the threat of an injunction from a minority shareholder, who had uncovered suspected inaccuracies in its results for the year to August 1988. A subsequent review by Peat Marwick McLintock highlighted the use of a controversial accounting technique in the figures. Without this, the reported pre-tax profit of £307,000 would be restated as a loss. The announcement of the findings was accompanied by the suspension of the shares at 35p in March and the cancellation of the proposed dividend.

Moss then undertook to produce a revised version of the 1988 accounts, together with the results for the first seven months of the year which began on September 1 1988.

This week, Moss has agreed to management buy-outs of Ash Gupta, a communications group, and Murray Maltby Walker & West, a Leeds-based advertising agency.

Ash Gupta, which was bought a year ago for £300,000 in cash and paper (which has since almost halved in value), has been sold for £100,000 in cash. Mr Mike Fenwick, an Ash Gupta director, said the management had decided to buy back the company because of the changed character of Moss Trust, which no longer had a regional network or a similar client base.

Mr Alan Murray, deputy chairman of Murray Maltby Walker & West, said its buy-out followed "philosophical differences." He is resigning as deputy chairman of Moss Trust.

Helical pays early interim by mistake

By Philip Coggan

DON'T SPEND it all at once. That is the best advice for Helical Bar shareholders who have received an unexpected bonus from the property development and investment company.

Helical Bar's directors proposed, and its shareholders approved, a final dividend of 5.0p. But Royal Bank of Scotland, the company's registrars, paid out a final dividend of 5.8p instead.

However, the surplus is not a pure windfall for shareholders. Helical Bar has decided to treat the 0.8p excess as a first interim dividend for the current financial year. It intends to declare a second interim dividend of 0.8p at the time of the interim results in September.

The total cost of the excess dividend is about £170,000. Helical will lose interest and will have to pay advance corporation tax on the excess this year rather than next.

Neither the company nor the bank would comment on how the error occurred. Mr Nigel McNair Scott, finance director, said that the "Royal Bank has served us well for many years" and the company had "no present intention" of changing its registrars.

The early payment might come in handy for Mr Michael Slade, the managing director. He owns 3.8m shares, so the excess dividend adds up to £30,000. It is possible Mr Slade is feeling the pinch after last year's pay cut - his salary fell to a mere £330,000 from £1.1m.

Barclays purchases Hill Samuel Registrars

By Philip Coggan

BARCLAYS yesterday became the third largest registrar in the UK via the purchase of Hill Samuel Registrars for a sum believed to be between £1m and £2m.

The news came on the day that the Stock Exchange approved plans for a jointly-owned clearing house to provide settlement services for domestic and international markets.

The purchase will increase Barclays' share of the market from about 8 per cent to over 20 per cent and leave it behind only Lloyds and National Westminster Bank in terms of registration business.

Registrars record changes in ownership of shares and, in a takeover bid, receive acceptances from shareholders backing a predator's offer.

They normally charge a flat fee per shareholder account plus an additional charge if turnover in the shares is heavy.

Mr Alex Tweedie, director of Barclays Global Securities Services said "we believe that the combined business will provide the critical mass and economies of scale necessary to allow us to develop further as a significant and profitable player in the registration field."

SBG advances 48%

By David Waller

SOUTHERN BUSINESS Group, a photocopier and vending machine contractor, reported pre-tax profits up 48 per cent from £2.85m to £4.21m for the six months to end-March.

Turnover surged by 65 per cent to £13.5m and earnings per share climbed from 12.93p to 17.59p, an increase of 36 per cent. The interim dividend is up from 2.21p to 2.88p.

Forward contracted income, business assured on long-term contracts, had risen from £106m at the end of March 1988 to £170m a year later, an increase of 60 per cent.

The shares added 10p to close at 475p.

Cadbury wins approval to raise borrowing limit

By Clay Harris

CADBURY SCHWEPPES, the confectionery and soft drinks group, yesterday finally won shareholders' approval to double its borrowing limit despite opposition from General Cinema, the US company which owns a 17 per cent stake.

Sir Graham Day, chairman, told Cadbury's extraordinary general meeting that the group would continue to seek carefully targeted acquisitions of branded businesses.

The higher limit, which allows Cadbury to borrow up to £1.7bn against £700m previously, was passed on a show of hands at the egm. General Cinema voted against.

Cadbury's original effort last month fell short of the 75 per cent approval required to change its articles of association. Yesterday's vote was on an ordinary resolution which needed only a simple majority to pass.

Proxies received before the meeting showed a vote in favour of 282.8m (including 6.6m to be voted at the chairman's discretion) and 4.5m against.

The new formula redefines adjusted capital and reserves to include goodwill written off since January 3 1988, increases the multiple of this figure up to which borrowing is allowed from 1½ to 2½ times and deducts cash and near-cash assets from the sum of borrowings.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
AB Engineering ......fin	0.08	-	0.03	0.08	0.03
Beaverco § ......fin	5.8†	—	4	7.5	5.7
Empire Stores ......fin	3.575	Oct 2	3.575	5.525☆	5.225
Gateway ......fin	6	Oct 2	5.5	9.5	8.5
Lister ......fin	3	Oct 2	3	4	4
Pepe § ......fin	4	Oct 2	3	6	4.5
Scot & Newcastle ......fin	7.73†	Sept 4	6.44	10.83	9.14
Scott Pickford ♯ ......fin	0.375	-	-	0.375	-
Sims Food § ......fin	6.2†	Oct 2	5	8.6	6.9
S'thern Business ......int	2.88	Aug 17	2.21	—	6.01

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. §§Unquoted stock. ♯Third market. ☆For 15 months.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

TODAY

Interims- Domino Printing Sciences, Fleming American Inv, Lindum Reels, Newman Tonks.
Finals- AAH, Bucknall Austin, Rowe Evans, Toothill (RW).

FUTURE DATES

Interims-

Appleyard	Aug. 30
Commercial Bank Near East	July 11
Hafslund Nycomed	July 26
M & G Dual Trust	July 12
Rank Organisation	July 13
Temple Bar Inv Trust	July 24

Finals-

ASM	July 14
Ferranti International	July 14
Murray Smaller Markets	July 25
Ross Consumer Electronics	July 6
Russell (Alexander)	July 6
Tex	July 24
Trevian	July 11
Whinney Mackay-Lewis	July 7

UK COMPANY NEWS

Acquisitions help S&N to £138m

By Ray Bashford

SCOTTISH & NEWCASTLE Breweries, in which Elders IXL, the diversified Australian brewing group, has a 24 per cent stake, boosted pre-tax profits by 22 per cent to £138.2m during the year to April 30.

The result, which fell between a narrow range of City forecasts, included a first full contribution from Matthew Brown, the brewer acquired in late 1987, and a maiden contribution from the investment in Pontins, the leisure group.

The company confirmed that the defence operation against Elders' takeover bid – blocked last March by the Monopolies and Mergers Commission – cost £6.2m and was included as an extraordinary item.

After the inclusion of the disposal of fixed assets, the total for extraordinary items was £4.8m.

Mr Alick Rankin, chief executive, said he was encouraged by the performance of the beer operations, both draught and cans, which returned a 3 per cent growth in volume sales during a year when competitive pressures had intensified.

He said the company had experienced growth in turnover in all areas of the country and added that the trend was continuing during the current financial year.

He also said that sales of the group's lager brands, which had been criticised as the weakest area of its beer business, had improved despite the specific competitive forces in this market sector from international companies.

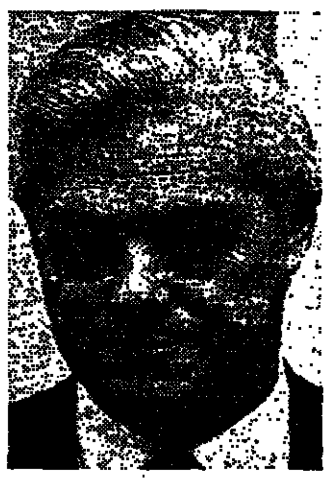
Drinks and public house activities contributed £133m (£108.9m) to operating profits while hotels, operated under the Thistle banner, returned £25.1m (£19.1m).

The leisure activities, held through a 50 per cent stake in Pontins, returned operating profits of £1.7m to raise the group total to £159.8m (£127.4m).

Turnover rose to £1.02bn (£911.5m).

The directors are recommending a 20 per cent increase in the final dividend to 7.73p which lifts the total from 9.14p to 10.83p. Earnings per share advanced from 20.3p to 23.4p with the figure at 10.5p (8.9p) in the second half of the year.

See Lex



Alick Rankin: encouraged by beer performance.

Center Parcs brings country club flavour

By Laura Raun in Rotterdam

CENTER PARCS, the Dutch leisure company in which Scottish & Newcastle Breweries is buying a 65 per cent stake, has sought to combine the "flavour of the country club, the health farm, the sports complex and the villa holiday".

The formula has propelled Center Parcs to four other countries. In 1988, pre-tax profits were Fl 60.2m (£17.6m) on Fl 493.8m turnover.

Besides the domed Tropicana tropical pool complex in Rotterdam, where the deal was announced yesterday, Center Parcs has eight holiday villages in the Netherlands, two in Belgium, one in France and one in the UK.

A planned village in West Germany is stalled by a local authority's refusal to grant a building permit. Under construction are a second park in the UK, a third in Belgium and a second in France.

Aside from being a successful entrepeneur, Mr Piet Derksen, Center Parc's 76-year-old founder, is also a devoted evangelist. His 60 per cent stake, which was sold to S&N, was held by Living Water, a Roman Catholic charitable foundation that "helps the poorest of the poor and spreads evangelism." The Fl 667m proceeds of the sale will help to finance evangelistic broadcasting and other efforts in Europe, Africa and the Soviet Union. Mr Derksen and his wife are giving Fl 3m to Center Parcs employees.

S&N is also subscribing for 1m new shares to take its shareholding to 65 per cent. The UK company, which beat out 30 rivals, has agreed to leave Center Parcs under Dutch management. The chairmen of the board and supervisory board must be Dutch and a majority of both boards must be Dutch or Dutch-speaking residents of The Netherlands.

Investment will amount to Fl 250 to Fl 300m in 1989 and continue at that level for coming years, according to Mr Hans Versloot, board member in charge of finances. Center Parcs, originally known as Sporthuis Centrum, was floated on Amsterdam's Parallel Market in 1986 and later moved to the central exchange.

Executive pay rises above 50% becoming common

By John Thornhill

THE TREND towards higher levels of executive pay has been borne out in another batch of annual reports, suggesting that such pay rises are becoming common across a range of industries.

Thorn EMI, which has diversified interests in music, lighting and technology, gave Mr Colin Southgate, chairman and chief executive, a 52 per cent pay rise to £481,094 – although about half of this rise was due to his elevation to the chairmanship in February this year.

Caledonia Investments, a holding company with investments in chemicals, refractory fittings, and cold stores, more than doubled the emoluments of its highest paid director, believed to be Mr David Kinloch, to £156,061.

The property sector saw a large pay-out as Mr Nazmu Virani, chairman of Control Securities, received a 67 per cent pay increase to £250,000.

And in the textiles sector, Professor Roland Smith, in his capacity as chairman of Readicut International, received £106,000 – including £99,000 in consultancy fees – a 60 per cent increase.

Iroquois stake in Eagle less than expected

By Philip Coggan

IROQUOIS Brands, the US conglomerate run by British businessman Mr Malcolm Stockdale, has discovered that it owns just 12.9 per cent, not 15 per cent, of Eagle Trust, the Midlands-based miniconglomerate.

The difference arrives from the inability of certain vendors, believed to include Wells Fargo Bank, to deliver shares which were contracted for sale.

Since Iroquois acquired the shares in May, trading has been suspended and Mr Stockdale has become chairman and chief executive.

And talks with a potential suitor have been stopped; new financial advisers have been appointed; and Peat Marwick has been appointed to make an independent report into the company's accounts.

Peat Marwick was believed to be reporting to the board yesterday.

While the shares are suspended, Iroquois seems to have little option but to retain its lower-than-expected stake.

Eagle hopes to produce its 1988 accounts later this month.

Fresh flare up over battle for Coalite

By David Waller

THE £420m bid battle between Coalite and the much smaller Anglo United flared up again yesterday as Coalite forecast a 29 per cent increase in its dividend for the year to March 31 1990 and pointed to properties worth £25m and a pension fund surplus of £64m.

The latest document, the last which Coalite can put out containing new defence information, was denounced by the aggressor. Mr David McErlain, Anglo's chairman, said that he had been waiting for a blockbuster, and that, in his opinion, it had failed to appear.

"There is nothing here to suggest that Coalite contains a hidden store of value," he claimed. He said that the value ascribed to the property sites – one in London's Docklands and another in Wandsworth – were lower than his own estimates. He was also unimpressed by the pensions surplus, saying that all companies should have one now.

Coalite urged its shareholders to ignore what it described as Anglo's "totally inadequate" offer. It did not give its own estimate as to a break-up value – which analysts have put at between 474p and 500p a share compared to Anglo's 425p cash offer – but offered the first ever divisional profits breakdown in its history, and suggested p/e multiples so that analysts could do their own calculations.

These figures showed that the Coalite manufacturing part of energy and chemicals made operating profits of £13.6m on £72.5m turnover while fuel distribution (the business Anglo is most interested in) made £7.5m on £284.7m. Coalite pointed out that a comparable deal in the sector – the consortium bid for British Fuels – had paid 15.4 times historic earnings.

Building supplies made £6.5m on £76.7m, while quarries made £2.9m on £19.4m; waste disposal made £2m on £13.4m turnover. Trading businesses – including vehicle distribution – made £7.5m on £170.9m turnover.

Coalite provided examples of deals in similar sectors, suggesting that lofty multiples should be applied to many of these businesses. Anglo – which wants to sell them off if the bid succeeds – was not keen to disagree, merely arguing that the businesses lacked the critical mass to compete in their respective sectors.

Total dividends for the current year will not be less than 18p (14p last year). Cash and listed securities now stand at £23.7m, Coalite revealed.

The latest bout of argument had no huge effect on City sentiment: Coalite's shares dropped 2p to 462p. Anglo's share closed unchanged at 52p.

£1m profit cut makes Empire Stores seek alternative to post

By Andrew Hill

EMPIRE STORES (Bradford) is considering alternative means of distributing its mail order goods after the three-week postal strike last September cut profits by more than £1m.

Pre-tax profits in the 15 months to April 29 still rose from £5.91m to £6.15m before exceptional items, which inflated the 1987-88 profits by £2.42m.

Operating profits were up to £9.44m, compared with £7.81m in the equivalent period, adjusted to account for the change in year-end.

Turnover rose 12 per cent to £269.05m (£239.82m), but Mr John Gratwick, chairman, said sales growth would probably have reached 13 per cent without the strike.

About half of Empire's deliveries are already handled by its own van delivery service. The other half is either sent direct from the supplier, by third-party carrier, or via the post office.

Mr Gratwick said yesterday: "It's a straightforward economic argument: we are measuring the cost of running our own delivery service, or using other carriers, compared with the cost of using the post."

He said customer confidence had been badly dented by the strike, with much of the cost of autumn's customer recruitment campaign wasted as a result.

Mr Gratwick said he was confident about the future of the group, which is supported by two large European shareholders.

Gecos, an Italian retailer, increased its stake from 20 per cent to 24 per cent during the year. La Redoute, the French mail order company controlled by the Au Printemps retail group, bought 20 per cent from Vendex, a Dutch retailer, a year ago. It has since raised that stake to 26 per cent.

"There has been quite a lot of exchange of ideas at top level, for instance on buying methods, buying sources and computer systems," said Mr Gratwick yesterday.

Great Universal Stores, the UK mail order group, also owns just over 12 per cent.

Earnings per share were 10.28p against 9.73p before exceptional items, or 13.57p after exceptionals. A recommended final dividend of 3.575p, makes 5.525p (5.225p) for the year.

● COMMENT

Empire signalled in April that these figures might disappoint, and several analysts downgraded their forecasts then. Although the shares crept up 3p to 179p yesterday, the extent of the postal strike's ill-effects still surprised some observers who had been cheered by January's comparatively positive interim statement. High interest rates are a particular worry this year: in this credit-driven business short-term customer debt rises as volume increases, so Empire's drive for market share – where the group seems to be outstripping competitors – could be double-edged. A £6.2m upward revaluation of property last year has helped the balance sheet, but leaves the profit and loss account untouched. Some analysts are forecasting a slight dip in profits to about £5.2m before tax in 1989-90, which would leave the shares looking expensive on a prospective multiple of more than 20. Others suggest a rise to £7m, but even on that basis the shares are on a p/e of 15: unexciting, and – with three large shareholders – unavailable.

£9m rights as Pepe rises 52%

By John Ridding

PEPE GROUP, the USM-quoted leisurewear company, yesterday announced a 52 per cent increase in pre-tax profits for the year to March 30 and a £9.3m rights issue to reduce debts and fund further international expansion.

The improvement in profits came on sales of £97.46m, up from £72.24m, reflecting steady growth in its major markets and a strong improvement at its French subsidiary.

Turnover in the UK market, which accounts for about 50 per cent of sales, grew by 27 per cent. Pepe brand name products led the increase but sales were constrained by problems in procuring enough quality denim from Hong Kong suppliers.

Mr Roger Rowland, chairman, said the group was seeking to develop its brands overseas to reduce dependence on the UK market. Pepe sells in 25 countries and has subsidiaries in 18.

It is the cost of this international expansion which lies behind the first equity issue since Pepe joined the USM in 1985. Mr Rowland said overseas brand development had "absorbed more working capital than we anticipated as we have proceeded rather quicker than we originally intended. This investment has increase our borrowings to a level that could hamper our continued expansion."

Borrowings, which stood at £12.8m at the year end also include financing for the acquisition of the Buffalo Group at the end of 1987 for £5m.

The one-for-eight rights issue is priced at 335p per share and is being underwritten by ANZ McCaughan.

During the year, continental Europe saw volumes increase by about 50 per cent. The US operation, which suffered in 1987-88 from a slowdown in the apparel market, improved sales by 30 per cent and, according to Mr Rowland "is now poised for a return to its growth strategy." Start up costs in Japan and India and a number of smaller European markets amounted to about £850,000 and have been written off.

Earnings per share increased 40 per cent to 21.8p and the final dividend is raised to 4p, giving a total of 6p (4.5p).

● COMMENT

One of Pepe's latest brands is Big Stuff, and so again are its profits. For the fifth year in a row, earnings per share grew by well over 30 per cent and by so doing topped analysts' forecasts. This year may be slightly constrained by a softening in the UK market, which accounts for more than 50 per cent of profits, and also by the maturity of this market – in which Pepe's share of jeans sales is almost 10 per cent. But this will be more than offset by the introduction of new brands and also by the increased contributions and lower costs from the group's international operations. Certainly there is no apparent slackening yet and sales for the first two months are said to be "significantly ahead." Pre-tax profits should reach £15m, although the effects of the rights issue and earnings per share raises the prospective p/e to just over 13. This still seems low and reflects Pepe's presence in the textiles sector rather than its earnings record and potential.

Scott Pickford drops to £71,000

Scott Pickford, the Third Market company which provides a range of geophysical and computer services to the oil, gas and minerals exploration industries worldwide,saw its profits fall from £232,022 to £71,464 pre-tax for the year to end-March 1989. Interest income for the year fell from £183,507 to £38,154.

Turnover expanded from £1.3m to £1.59m. A dividend of 0.375p is being paid from earnings of 0.77p (2.71p).

An extraordinary provision of £247,942 represented a loss arising on the revaluation of software acquired, amounts payable under guarantees issued and abortive acquisition costs.

Boots despatches Ward White offer

By Philip Coggan

BOOTS yesterday issued its offer document for fellow retailer Ward White in double quick time, just one day after it launched its £800m cash bid.

The document says that "Ward White lacks strategic direction and offers negligible growth in fully diluted earnings per share." Boots argues that its skills in technology and systems, warehousing and distribution and "own branding" will be applied to develop the Ward White businesses.

The offer for Ward White, which owns the Payless DIY chain and the Halfords auto parts and bicycles stores, is 400p per share and 187p per convertible share. There is a loan note alternative.

The document reveals the terms of the £950m financing facility arranged by Chase Investment Bank, Westdeutsche Landesbank Girozentrale and Kleinwort Benson. Interest will be 0.15 per cent over Libor. There is a commitment fee of 0.0625 per cent per annum and an arrangement fee of £475,000 payable to Chase Investment Bank.

Mr Philip Birch, the Ward White chairman, said the document "doesn't really address the value of Ward White. the market is taking a more optimistic view than Boots is." Ward White's shares closed at 444p yesterday.

See Birch profile p24

Settlement services for stockbrokers

A large national settlement services company for stockbrokers is to result from a £2.6m transaction involving Société Générale Strauss Turnbull, the City of London stockbrokers, Security Settlements, and the National Investment Group.

A new company, Société Générale Settlement Services, 51 per cent owned by Société Générale Strauss Turnbull and 49 per cent by National Investment Group, is to acquire Security Settlements, which specialises in security services.

The group, which will be autonomous, will combine the capital strength of Société Générale Strauss Turnbull, the settlement expertise of Security Settlements and the national network of National Investment Group of stockbrokers.

Mr Stephen Hogarth, chairman of Société Générale Settlement Services, said the move was in response to the need for stockbrokers to control overheads as volumes remained low and markets difficult.

مكبرة من الاصل

UK COMPANY NEWS

Ross Catherall at £7.4m beats flotation forecast

By Clare Pearson

ROSS CATHERALL, the special steels, alloys and investment castings manufacturer, marginally beat the forecast made when it joined the main market four months ago. Pre-tax profits rose 28 per cent to £7.4m in the year to the end of March.

Mr Des Mawson, chairman, said each of the subsidiaries recorded significant progress as strong demand continued in the group's main aerospace and automotive engineering markets.

The core Sheffield plant, making superalloys and special steels, provided the lion's share of profits, with each of the other activities putting in about 10 per cent of the total.

Sheffield accounted for about 40 per cent of sales with the similar US subsidiary providing about 30 per cent. Trucast, the investment castings company which is Europe's largest producer of turbocharger turbine wheels, provided 25 per cent and the balance was accounted for by a ceramic components company bought in April last year.

Mr Mawson said order books on the aerospace side were about 15 per cent up on last year. The Sheffield operation was powering ahead as production of new aero-engines in Europe increased, although a much slower US market meant a flat year was in prospect for the Californian subsidiary. Orders on the automotive side were about 5 per cent up.

Turbotech, the joint venture which makes turbocharger compressor wheels, is expected to contribute from next year.

Ross Catherall joined the market in March in a £11.8m placing which valued it at £47.2m, and raised no new money. Cash balances at the year-end were about £10.5m.

Turnover during the year was £43.23m (£33.36m). Fully-diluted earnings per share came out at 12p (9.5p). There will be no dividend until the interim in January next year.

● COMMENT

Ross Catherall's shares, placed at 125p, now look well up with events at a good 50p higher: assuming the company makes £8.25m this year, they stand on a prospective p/e of over 13. Nevertheless, those people who have managed to get hold of what little stock is around can feel happy about locking it away. Founded in 1968, Ross Catherall has this decade achieved an excellent acquisitions record and can claim to occupy dominant positions in growth areas. In Europe, business looks particularly good at the moment. Rolls-Royce, one of the company's main customers, has in the last month received £500m worth of orders for aerospace engines; while a perfectly respectable rate of growth on the Trucast side could be considerably enhanced by new types of superchargers being introduced in Europe this year.

EHP proposes an aggressive stance for the old bunny

By Clay Harris

LESS THAN a week after Playboy's 63-year-old founder made headlines by marrying a 26-year-old former Playmate, Mr Doug Ash is convinced there's life in the old bunny yet.

European Home Products, the retail and distribution company headed by Mr Ash, yesterday announced a long-term licensing agreement with Playboy Enterprises under which EHP will develop and market a Playboy range of men's fragrances and toiletries in western Europe and Australasia.

The products will be targeted at men between 18 and 30 and priced in the "upper middle" range, Mr Ash said. EHP will pay Playboy a licence fee of 5 per cent of wholesale sales.

EHP has sold toiletries under the Playboy brand in Austria since 1987, but the new range will include additional products and feature "very modern, very aggressive" packaging, he said. But he was reassuring: "The bunny's still on it."

Austria and West Germany will be the first markets for the new range, followed by Scandinavia, France and southern Europe. There are no definite plans for a launch in the UK, where Playboy does not have as "positive" an image among the target age group as in continental countries, Mr Ash said.

The Playboy fragrances operation will be part of EHP's Scholl International footcare division, whose products might be of more interest these days to Mr Hugh Hefner.

● EHP has sold its Scholl factory, export warehouse and offices in London for £15.1m. The book value of the sites was £1.5m and relocation to Luton and the east Midlands is expected to cost about £4m.

JMD expands into lighting

By Clay Harris

JMD Group, the USM-quoted greeting cards and fluffy toys distributor formerly known as John Michael Design, has paid £2.3m for a 25 per cent stake in Hitech Lighting, a manufacturer and distributor of low-voltage light fittings and transformers.

Mr Keith Moss, JMD chief executive and a non-executive director of Hitech, described the holding as a strategic investment which could lead eventually to a full takeover. However, 28 per cent of Hitech's shares are held by Business Expansion Scheme investors who cannot sell before November 1990 without losing tax relief.

Hitech reported pre-tax profits of £1.06m on turnover of £5.22m in the year to March 31 1988. It said the result in 1988-89 should be similar because of the costs involved in introducing new products and moving production to a new plant in Cleveland.

The purchase is being funded by the issue of nearly 5.87m JMD shares, about 10 per cent of enlarged share capital, and £200,000 in cash.

More than four-fifths of the new shares are being vendor placed at 37p, 1p below yesterday's price.

The 640p per Hitech share paid by JMD compares with a BES subscription price in September 1985 of 150p, before taking account of tax relief of up to 60 per cent.

After selling the 25 per cent stake to JMD, Hitech's joint managing directors still hold nearly 35 per cent between them.

A little less than 13 per cent is owned by Emess, the light fittings and electrical accessories group.

Power Corp pays $43m for Rhinelander mansion

By Clay Harris

POWER CORPORATION is to pay $43m (£27.1m) for the Rhinelander mansion, described by the Dublin-based property group as the "most architecturally impressive building" on New York's Madison Avenue.

Built in 1898 in the style of a Loire chateau as a residence for Mrs Rhinelander Waldo, the 27,000 sq ft building's current claim to fame is as the flagship store for the Polo line of Ralph Lauren, the US fashion designer. His company has a 20-year lease, with renewal options for another 29.

Power is funding the purchase with a $30m non-recourse loan secured on the property and $13m in cash.

Power has also bought, in association with Amec, Brent Walker and S D Malkin Properties, a 23.5 acre site in Los Angeles for $64m. The property, on Wilshire Boulevard, includes the Ambassador Hotel and surrounding land.

Lister profits fall 48% to under £2m

THE ADVERSE effects of high interest and exchange rates on the UK textile industry was well illustrated yesterday by Lister, the Bradford-based textile group.

In the year to March 25 1989, the group, which also has property investment, engineering and insurance broking interests, reported pre-tax profits of £1.63m — a decline of 48 per cent on last time's £3.11m.

Mr Justin Kornberg, chairman, said high interest rates and, in particular, high exchange rates contributed to a lessening in demand for the company's products.

"A declining pound should encourage an increase in demand for UK-based goods" he added. Referring to Lister's property side, Mr Kornberg said that the "utilisation of property assets continues apace".

Turnover dipped to £40.2m (£49.22m). Earnings fell to 8.31p (15.68p) per share, but the recommended final dividend is a same-again 3p for a maintained total of 4p.

ABE progresses to £0.8m

ASSOCIATED British Engineering continued to progress through the second six months of the 1988-89 year and for the full 12 months saw profits rise from £232,000 to £834,000 at the pre-tax level.

Turnover for the year to March 31 pushed ahead from £26.22m to £31.43m but net operating expenses took £4.77m more at £30.4m.

Earnings per 1p share worked through at 0.25p (0.04p). The proposed dividend is 0.08p (0.03p).

DC Gardner expands with acquisitions worth £11.5m

By Clare Pearson

DC GARDNER Group, USM-quoted financial training company which grew on the back of the rapid growth in City employment earlier this decade, also aims to benefit from the recession there by buying Coutts Consultants, the outplacement agency.

The acquisition, worth up to £7.96m, was announced yesterday along with two other purchases for a further maximum consideration of £3.55m. The deals, financed by a mixture of loan stock, cash, and 5.48m shares, representing 40 per cent of the enlarged equity, effectively doubles the size of Gardner's business.

Mr Colyn Gardner, chairman, said there were opportunities for enhancing Coutts' base of 200 customers, of which only 30 were financial, by marketing its services to Gardner's 300 financial clients.

"There is not one of our clients who is not having to think about the costs of its people at the moment," he said. Additionally, Gardner hopes to sell its training programmes to Coutts' other customers.

Meanwhile, it is taking an apparently incongruous step into the world of flower arranging and cookery with the £2.55m purchase of The Constance Spry and Cordon Bleu Group, a 40-year old finishing establishment.

That company, where the owner is retiring, is being bought primarily for Winkfield Place in Berkshire, which Gardner expects to turn into a residential financial training centre. It is paying nothing for the businesses but Mr Gardner said that did not mean they were being closed down. Included are the UK rights to the Cordon Bleu name and such gems as a library of some 1500 unpublished recipes.

The third acquisition, for up to £1m, is of Market Simulation, a developer of interactive computer training simulators.

All the new shares are being placed at 180p each apart from 400,000 to be retained by the main vendors of Coutts, who are otherwise getting a mixture of cash and loan stock. The CSCB purchase is in cash, and the MSL vendors will receive £200,000 in cash on completion and the balance on an earn-out basis.

NOTICE OF REDEMPTION
To the Holders of the
9¾% Guaranteed Notes Due 1991
of

General Electric Credit International N.V.
(guaranteed by General Electric Capital Corporation, formerly known as General Electric Credit Corporation)

The foregoing Corporations are affiliates of General Electric Company, U.S.A.

NOTICE IS HEREBY GIVEN that, pursuant to the provisions of Section 8 of the Fiscal and Paying Agency Agreement, dated as of February 1, 1983, among General Electric Credit International N.V. (the "Company"), General Electric Credit Corporation (now known as General Electric Capital Corporation), as Guarantor, and The Chase Manhattan Bank (National Association), as Fiscal and Paying Agent, and paragraph 6(a) of the Terms and Conditions of the above-mentioned Notes (the "Notes"), all of the Notes will be redeemed on August 1, 1989 (the "Redemption Date") at the price of 100% of their principal amount (the "Redemption Price"). Interest due on August 1, 1989 on the Notes will be paid in the usual manner. Interest on the Notes shall cease to accrue from and after the Redemption Date. On and after the Redemption Date, the sole right of the holders of the Notes shall be to receive the Redemption Price.

Payment of the Redemption Price will be made upon presentation and surrender of the Notes, together (in the case of bearer Notes) with all appurtenant coupons maturing subsequent to the Redemption Date, at any of the paying agencies listed below. In the event any such unmatured coupons fail to be presented, the amount of the missing coupons will be deducted from the Redemption Price.

Chase Manhattan Bank Luxembourg, S.A.
5 Rue Plaetis
L-2338, Luxembourg Grund

Chase Manhattan Bank (Switzerland)
63 Rue du Rhone
1204 Geneva, Switzerland

The Chase Manhattan Bank, N.A.
London Branch
Woolgate House, Coleman Street
London EC2P 2HD
England

Banque Bruxelles Lambert
Avenue Marnix, 24
1050 Brussels, Belgium

Coupons which shall have matured on or prior to the Redemption Date should be detached, presented and surrendered for payment in the usual manner.

Payment on any Note made within the United States, including by transfer to a United States dollar account maintained by the payee with a bank in the City of New York, may be subject to reporting to the United States Internal Revenue Service (IRS) and to backup withholding of 20% of the gross proceeds (including premium and accrued interest) if the payee fails to provide the paying agent with an executed IRS Form W-8 in the case of a non-U.S. person or an executed IRS Form W-9 in the case of a U.S. person. No such backup withholding will be required in the case of presentation of bearer Notes for redemption with a paying agent outside of New York, New York, if payment is made outside the United States. Information reporting to the IRS will only be required upon such payment made outside the United States if made to U.S. persons in certain circumstances. Those U.S. holders who are required to provide their correct taxpayer identification number on IRS Form W-9 and who fail to do so may also be subject to an IRS penalty of U.S. $50. Accordingly, please provide any appropriate certification when presenting the Notes for payment.

GENERAL ELECTRIC CREDIT INTERNATIONAL N.V.
By: THE CHASE MANHATTAN BANK (National Association) as Fiscal and Paying Agent
Dated: June 28, 1989

BANK HANDLOWY W. WARSZAWIE S.A.
Registered Office: TRAUGUTTA 7-9 WARSZAWA (POLAND)
FLOATING RATE NOTES 1979-1989 OF USD 1.000
General Redemption

The holders of floating rate notes 1979-1989 of USD 1.000 are informed that the general redemption will take place on August 17th, 1989.

BANK HANDLOWY W. WARSZAWIE S.A. has evinced intention to redeem only the bonds held as of March 28th, 1989 by the holders "Natural Persons". The holding as of March 28th, 1989 forms the subject of an affidavit delivered to the holder by a bank or a financial institution.

This affidavit will have to accompany the bonds deposited for redemption.

These bonds will be redeemable at USD 1.000 at the offices of the following establishments:

- BANQUE NATIONALE DE PARIS - PARIS
- BANQUE NATIONALE DE PARIS (LUXEMBOURG) S.A. - LUXEMBOURG
- BANQUE INTERNATIONALE A LUXEMBOURG - LUXEMBOURG
- FRENCH AMERICAN BANKING CORPORATION - NEW YORK
- SOCIETE GENERALE - PARIS

However, the bondholders who benefit by this redemption must deposit the securities they hold prior to July 17th, 1989 at the office of the fiscal agent i.e. BANQUE NATIONALE DE PARIS, Centre d'Operations sur Coupons et Titres, 8 rue de Sofia 75018 PARIS or at the above mentioned offices of the paying agents.

BOWATER INDUSTRIES PLC
formerly THE BOWATER CORPORATION LTD.

NOTICE OF EARLY REDEMPTION OF THE 9¼ PER CENT BONDS DUE 15TH MAY 1992

Notice is hereby given pursuant to Condition 5(B) attaching to the above described Bonds ("the Bonds") that Bowater Industries plc has elected to redeem all of the outstanding Bonds on 5th September, 1989 at the redemption price of 100½ per cent of the principal amount thereof, together with accrued interest to 5th September, 1989.

On 5th September, 1989, the Bonds shall become due and payable. Bonds should be presented and surrendered for payment together with all unmatured coupons, failing which the amount of the missing unmatured coupons will be deducted from the sum due for payment. Payment for the period 16th May, 1989 to 5th September, 1989 will be made against the coupons dated 15th May, 1990. Payments will be made in United States Dollars at any of the offices listed below.

Coupons due on or before 15th May, 1989 should be detached and collected in the usual manner.

On and after 5th September, 1989, the date fixed for redemption, interest on the Bonds will cease to accrue.

Dated 5th July, 1989

BOWATER INDUSTRIES PLC
Bowater House
Knightsbridge
London SW1X 7NN

PRINCIPAL PAYING AGENT
Morgan Guaranty Trust Company of New York,
Corporate Trust Office,
30 West Broadway,
New York, N.Y. 10007.

Paying Agents

Swiss Bank Corporation, Aeschenvorstadt 1, CH-4002 Basel.
Morgan Guaranty Trust Company of New York, PO Box 161, 1 Angel Court, London EC2R 7AE.
Morgan Guaranty Trust Company of New York, 14, Place Vendôme 75001 Paris.
Morgan Guaranty Trust Company of New York, 35, Avenue des Arts, 1040 Brussels.
Credit Suisse, Paradeplatz 8, CH-8021 Zurich.
Morgan Guaranty Trust Company of New York, Bockenheimer Landstrasse 33, D-6000 Frankfurt am Main.
Caisse d'Epargne de l'Etat, 1, Place de Metz, Luxembourg.
Union Bank of Switzerland, Bahnhofstrasse 45, CH-8021 Zurich.

UK COMPANY NEWS

H Young shares fall on earnings warning

By John Ridding

SHARES IN H Young Holdings, the distribution group, fell 25p to 128p after it warned that earnings per share for the 14 months to September 30 would be lower than the 15.2p of previous 12 months.

Mr John Wilson, chairman, said that although pre-tax profits would be well ahead for the new accounting period, they would be lower than expected because of trading difficulties in several divisions. The 25 per cent increase in the number of issued shares since the end of the last financial year, would therefore leave earnings lower.

The shares were issued largely to finance three acquisitions.

Mr Wilson said the market for optical frames and lenses had been "an absolute disaster" following the government's decision to impose charges for eye examinations from April 1. Sales had fallen by about 40 per cent but a government-subsidised advertising campaign could help demand return to normal by the year end.

Sales of sunglasses to the group's smaller outlets had also been disappointing and certain sections of Young Electronics and Young Automotive had suffered from a decline in spending.

Beleaguered buccaneer prepares for battle

David Waller on the career of Ward White's chairman in the light of the Boots bid

COMPANY CHAIRMEN who enjoy going on the acquisition rampage often find themselves being described as "buccaneering" in the financial press. Rarely could such an adjective – with all its piratical overtones – seem more appropriate than in the case of Mr Philip Birch, chairman of Ward White.

If not exactly an old seadog, his years in the merchant navy while a teenager did give him a degree of nautical credibility. Moreover, he took an almost impudent relish in the spate of deals which took his company – in the space of the last decade – from being a small shoe manufacturer to being one of the UK's largest retailers, owner of Halfords and the Payless DIY chain.

On Monday, events took a dramatic – if not wholly unpredictable turn – when Boots pitched in with an £900m hostile bid for Mr Birch's company. The buccaneer is now beleaguered and it is not impossible that he – like many of the businessmen he has encountered over recent years – will end up being forced to walk the corporate plank.

Mr Birch, 57 this year, has an unusual background for a top businessman. Born in Liverpool in 1932, he went off to sea at the tender age of 14, where he served for four years with the Elder Dempster Line before coming ashore. He had a trial for Everton football club. He worked at English Electric on Merseyside, taking evening classes to qualify first as an engineer and subsequently as an accountant.

In time, he became a brand manager for Holly Dried Foods at a Unilever subsidiary; later he joined a City of London firm of accountants which doubled up as management consultants. He was sent on an assignment to sort out the problems of John Ward, a Northamptonshire shoe manufacturer – and in 1968 found himself appointed managing director.

From the end of the 1960s to the beginning of the 1980s, Mr Birch rarely strayed onto the public stage. His only contact with the press would take the form of an exhortation to buy British shoes. Sadly, readers ignored him and he was forced to battle against mounting competition from imports, concentrating his energies on rationalisation and retrenchment. The number of factories under his command shrank from 80 in 1972 to just five in 1984.

There was some mergers and acquisitions activity when Mr Birch was stuck in his Northampton fastness – a merger with George Ward in 1972, the acquisition of TUF shoes a year later – but nothing compared with the spate of bids and deals unleashed since the turn of the decade. There was a strategic decision to move into shoe retailing, which led to a number of acquisitions in the US and a variety of abortive assaults on shoe chains such as K-Shoes and Hiltons.

The really big move came in November 1984 when Ward White snapped up Halfords for £52m, a figure which at that time more or less coincided with Ward White's own market capitalisation. Even though the Halford business was entirely unconnected from any of Ward White's other activities, the City appreciated the deal for what it was: a smart, opportunistic move. That judgment has not changed over subsequent years and Halfords has proved the engine of the company's growth to profits of £76.6m last year.

Trevor Humphries

Ian Staples (left), managing director of Halfords, and Philip Birch, chairman of Ward White.

The deal earned Mr Birch the sort of following that in pre-crash days guaranteed a lofty rating for Ward White's shares. With some encouragement from the merchant banking community, that paper was duly exploited to make acquisition after acquisition which took the company further and further away from its manufacturing roots. The old businesses were eventually sold last year.

At times it seemed that Mr Birch's enthusiasm for retailing, no matter what the sector, was somewhat indiscriminate. In November 1985, he spent £19m on Maynards for its Zodiac toy chain: less than three years later the toy interests were sold. Similarly, a flirtation with department store retailing proved abortive and Owen Owen – found itself bought and sold over the same three-year period. The latest of the 1985 purchases – Payless – is still part of Ward White.

A degree of disillusionment set in after the purchase of LCP Holdings in October 1985 and more recently of AG Stanley.

The latter £103m offer took place only days after Mr Birch had told investors that no bid "for paper" was in the offing; a statement which when the bid was launched on the grounds that the convertibles used to finance the offer were not equity and therefore should not be counted as paper at all.

One broker quipped that any rise in the Ward White share price was likely to be followed by a bid.

His hobby is tennis, which he plays aggressively on his Northamptonshire estate, and he spends a lot of time with his family (he has eight children by two marriages).

For all Ward White's corporate gyrations, Mr Birch has retained his slightly roguish charm. He has a robust sense of humour – too robust for some – and he will no doubt thoroughly relish the bid battle with Boots.

Acquisitions boost Sims Food to £6m

By John Thornhill

SIMS FOOD Group, the USM-quoted meat company, yesterday revealed a substantial increase in pre-tax profits from £2.11m to £6.05m for the year to March 31.

However, Sims said the increase was not as great as it had hoped for and better figures would have been presented had it not been for an unseasonally warm winter and operational problems at its Shouler plant.

Turnover rose sharply to £143.29m (£58.77m) as retailing activities experienced growing demand from major supermarkets and the catering supply division won new customers. Acquisitions contributed about 60 per cent to the sales and profits increases.

Mr Douglas Appleby, chairman, and Mr Ron Randall, chief executive, said the mild winter and a glut of cheap Irish beef had been a one-off factor and that the problems at its Shouler plant were now nearing resolution.

In March, Sims warned that pre-tax profits would not be as high as the £7m to £8m that analysts had been forecasting, and its share price fell 47p to 468p on the news. It has since slipped further but recovered to 258p yesterday, up 8p.

Sims said that during the year there had been slightly erratic behaviour in the volumes and prices of livestock raw materials because farm price support mechanisms were in the process of being dismantled.

The markets had now settled, the company claimed, and it was expecting a more stable trading environment during the current financial year.

After raising £14m by way of a rights issue last year, the company has eliminated its borrowings and has almost £3m available for future investment.

Last year, Sims spent nearly £5m on capital expenditure.

Earnings per share worked out at 19.41p (14.39p), an advance of 35 per cent.

A final dividend of 6.2p is recommended which will make a total of 8.6p (6.9p).

● COMMENT

For a company that was wailing "where's the beef?" throughout the winter, yesterday's results looked pretty good despite being below initial expectations. It is perhaps only a measure of Sims' ambitions that it saw the outcome as something of a disappointment. Problems look as though they have been solved, current trading is reported to be good and recovery appears to be on the way. Pre-tax profits may climb above £8m, giving Sims a prospective p/e of about 11, which seems a shade on the ungenerous side given Sims's yearnings to grow. However, as recent health scares, changes in consumer tastes, and weather worries have shown, the market is an unpredictable one and Sims has proved that it is not invulnerable. It might yet take some time before the market is convinced that Sims has thrown off the impression of being accident-prone.

Claremont loss increases to £107,000

HEAVIER pre-tax losses of £107,000 were announced by Claremont (UK), the oil and gas company, for the six months to March 31.

The outcome compared with a previous loss of £43,000, but included a £98,000 charge relating to a write-off on drilling in the Gaza block in Turkey, since abandoned.

Turnover increased from £108,000 to £329,000. Losses per 1p share came through at 0.003p (0.002p).

There was again no tax charge.

The company has made a number of recent acquisitions in the US and is pursuing further interests there.

Green image helps Beaverco rise 84% to near £3m

By Edward Sussman

THE GREEN advantage of Beaverco's foam and foam-related consumer products helped push its pre-tax profits ahead 84 per cent in the year to March 31.

The USM-quoted maker of foam and consumer products said its Safeguard flame retardant and ozone-friendly foam continued to show strong turnover, as well as encouraging sales of the consumer products it fills.

Pre-tax profits rose to £2.82m (£1.53m) on turnover of £43.5m (£23.81m). The biggest increase in sales came from the consumer products division following the acquisition of Aronstead, a garden furniture manufacturer, and Karobes, the car seat cover company.

Turnover in consumer products rose to £21.4m (£6.3m), while the manufactured and converted foam products sector accounted for £14.8m (£11.9m). The industrial products division, which supplies foam for car engines and to damp noise levels in factories, reported sales of £7.07m (£5.4m).

Interest payable jumped to £933,00 (£203,000) and the £1.9m sale and lease-back of a factory temporarily left year-end gearing at about 100 per cent, against the group's usual 40 per cent level. But the company said it remains at a comfortable borrowing level for future acquisitions and is willing to return to the equity market to finance sizeable purchases.

Earnings per share were 24.2p (15.9p) and a recommended final dividend of 5.6p brings the total to 7.5p (5.7p).

Vaux buys Morris Wine

Vaux Group, the Sunderland-based brewer, has acquired Morris Wine Stores, a chain of 25 off-licences, for £2.6m.

The stores are located within a 30-mile radius of Birmingham. They will be managed by Blayney, a Vaux subsidiary, which will now operate a total of 190 outlets.

The consideration is equivalent to Morris's net asset value and will be funded by the issue of 262,000 Vaux shares with the balance in cash or loan notes.

COMPANY NEWS IN BRIEF

AAH HOLDINGS has acquired the retail pharmacy businesses of PA Morgan, of Swansea, and John Park & Son, of Aberdeen, for £580,000, met by the issue of 146,238 AAH ordinary shares.

APPLEYARD GROUP has bought the Volvo car distribution businesses trading as Hindle and Walker of Preston and Hindle and Maddison of Bolton for about £2.59m in cash and shares.

ARLEY HOLDINGS has acquired Paterson for £1.76m, with a further deferred consideration of up to about £590,000 may become payable dependent on profit performance. Paterson designs, manufactures and distributes photographic equipment and chemicals in the UK and overseas.

ARMOUR TRUST is acquiring a 23,000 sq ft warehouse at Curdworth, Warwickshire, as a distribution centre for its Bonds Confectionery subsidiary.

BOURNEMOUTH AND District Water: Biwater acquired or received acceptances in respect of £1.14m nominal of offer stock, representing 97.04 per cent of the voting rights, by July 3, the closing date of the recommended cash offer.

BP ADVANCED MATERIALS has acquired DWA Composite Specialities of Chatsworth, California. The annual sales of DWA, which is involved in the research and manufacture of high performance silicon carbide, graphite and boron reinforced metal matric composites, are about $3m to $4m.

CARBO is buying General Moulders, a plastic injection moulding company, and its associates M E Polycon and Moulding Equipment for £2.5m in a mixture of cash, shares and bonds.

COMMUNITY HOSPITALS Group is buying Thomas River and Sons, a company in liquidation, which owns 73 acres of land at Sawbridgeworth, Hertfordshire. Consideration, payable on fulfilment of certain conditions, will be £3m in cash.

DALGETY AUSTRALIA Holdings, a wholly-owned subsidiary of Dalgety, has sold 22.2m ordinary (4 per cent) in Dalgety Farmers to the Australian and New Zealand Banking Group for A$6.2m (£3m). A further 300,099 shares were sold, at the same price, to the ANZ Banking Group by the Dalgety Australia Retirement Fund, increasing ANZ's interest to just over 25 per cent.

DEAN and BOWES has exchanged contracts for the sale and leaseback of certain properties. The purchaser is Davina, a privately owned property investment and development company. A sum of £2.9m is payable on completion. Dean and Bowes will construct a new additional building on the Preston property for the purchaser. Completion of construction is expected by December 1989 when a sum of £500,000 will be payable to Dean and Bowes.

DIAMOND GROUP HOLDINGS has agreed to acquire Hexagon 102 to be renamed Motorplan into which the trade and certain assets of Motorplan were hived-off on June 30 1989 for a maximum initial consideration of some £2m. Of this, £1.05m will be payable on completion, £604,000 in cash. The balance of the initial consideration is payable no later than May 1 1990 dependent upon pre-tax profits for the period July 1 1989 to December 31 1989.

DONELON TYSON is taking over Sebel House Developments and Sebel House Skelmersdale for £2.7m.

DWYER has acquired five freehold retail warehouses for £6.77m. They are all let to Lowndes Queensway for an aggregate £774,000 annually.

GALLIFORD is buying Rock and Alluvium (Holdings) for £4.25m in shares plus a deferred profit-related payment. For the year to August 30 1988 Rock reported net profits of £792,499. Net assets at that date were £867,000.

HENDERSON ADMINISTRATION Group announced that neither it nor any of its subsidiaries are connected with Henderson Investment Corporation, a Panamanian company which is the subject of a winding-up petition instigated by the Department of Trade and Industry.

HEWLETT-PACKARD: The Secretary of State for Trade and Industry has decided not to refer the acquisition by Hewlett-Packard of Appollo Computer Inc to the Monopolies and Mergers Commission.

HOLLAS has exercised its option to purchase the remaining 67 per cent of Ferndene Fibres not already owned by it for £120,706 in shares.

مكرر من الاصل

TECHNOLOGY

Software that builds on the real world

Alan Cane assesses a new approach to programming that could ease the systems backlog

Computer software developers are becoming convinced that a cure for the world's software crisis is at hand.

Called object-oriented programming (Oop), it attempts to model the real world in software terms, using artificial intelligence. David Stanley, director of strategy at Oasis, a UK management consultancy, claims it is the most significant advance in software technology since high level languages in the 1960s.

Judith Jeffcoate of the Ovum consultancy, principal author of a study of object-oriented systems*, says that Oop will play a central role in all computer-related technologies in the 1990s.

Computer manufacturers and software vendors seem to agree. When International Business Machines, the world's largest computer maker, announced its software for the "electronic office" recently, it made it clear that it had been developed around object-oriented principles. And Microsoft, the world's leading microcomputer software company, is committed to Oop which it already uses internally.

In April, 10 of the world's leading computer companies (Canon, Data General, Gold Hill Computers, Hewlett-Packard, Philips, Prime Computer, Soft-Switch, Sun Microsystems, Unisys and 3Com) and American Airlines, a sophisticated user of computer technology, announced the formation of an "object management" group.

With such a galaxy of supporters, can there be any doubt that object-oriented programming is to software production what prefabrication was to the construction industry?

Certainly there can. Data processing professionals often rival builders in their reluctance to give up traditional methods, no matter how inefficient they may be. And, after all, other software technologies have promised dramatic advances but then only gained slow and patchy acceptance.

High level languages, which made it possible to program in something like English rather than cumbersome machine code, were perhaps an exception. But Cobol, the first, is still easily the most popular. Fourth generation languages, which created programs automatically from simple instructions, emerged in the 1970s but are only just gaining general acceptance.

Computer-aided systems engineering (Case), designed to add engineering discipline to the craft of software production, has been the buzz-word of the 1980s. Many doubt whether it will find a widespread role.

To make matters worse, Oop is hard to comprehend, even for hardened data processing professionals. It is so unlike conventional programming that it is seems easier to train a potential object-oriented programmer from scratch rather than retrain one drilled in conventional methods.

Judith Jeffcoate points out that programmers who like to work on their own – the bearded, sandalled eccentrics of data processing folklore – are particularly averse to Oop methods; it seems best suited to those interested in co-operative problem solving.

Some data processing managers are sceptical about the novelty of the approach. "What makes this different from ordinary modular programming?" one asked. To understand that, it is necessary to understand a little of how a computer program is constructed.

Ian Banks, technical consultant at Symbolics, of Massachusetts, which has developed an object-oriented database system, explains that software developers have two difficulties which Oop can overcome:

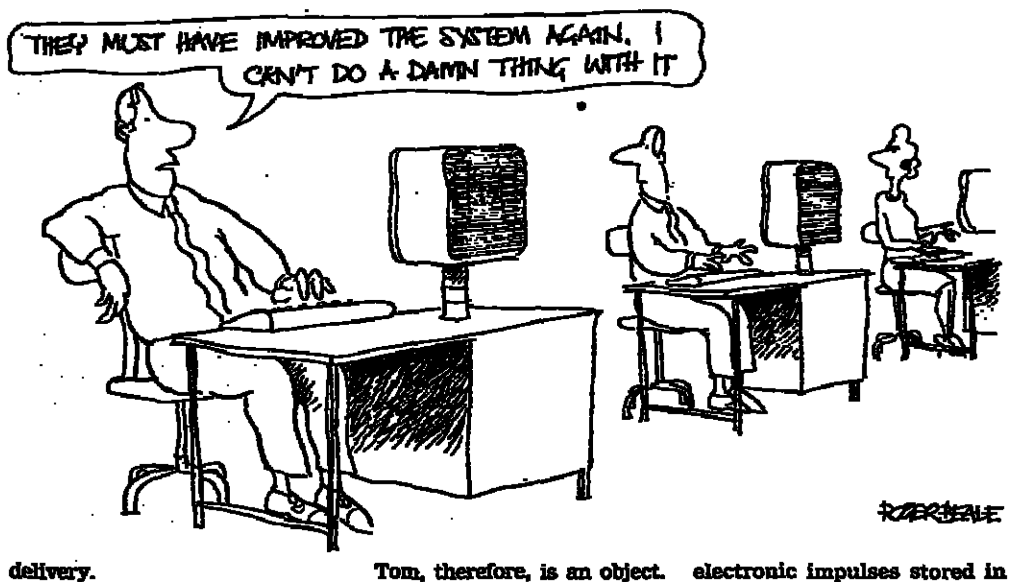
- How can complex problems be represented or modelled in the computer?
- How can the program be organised and managed to meet quality assurance and maintenance requirements while being amenable to change?"

Traditionally, a programmer makes a conscious separation between data and the procedures which operate on and modify that data. He or she stores the data and the procedures in different parts, or modules, of the system.

The program consists of a set of statements governing the interaction between the data and the procedures. Changes in the data affect many different modules often written by different programmers.

But this is inflexible. As Daniel Bobrow pointed out in Datamation, the US journal, "every time you develop a new program, you always seem to have to start all over from scratch. Even when the code (the list of written instructions) seems to be very similar to code you have already built for another purpose, the application you are striving to create requires slight adjustments that make it difficult to use the same code again."

That encapsulates the "software crisis" in business data processing. Executives planning commercial initiatives need new computer systems. The average delay in developing a system – the infamous "information systems backlog" – is two years. Many new systems are never used because the requirements of the business have changed between specification and delivery.



Object-oriented systems are structurally quite different. The object, as in the real world, is something that has a name and properties that can be ascribed to it, and it responds in a recognised way to stimulus. Objects communicate with each other by sending and responding to messages. Furthermore, objects can be grouped into classes with similar properties.

Jeffcoate cites cats as an example. "All domestic cats belong to the species Felis catus. The particular animal, Tom, who shares our home has characteristics that distinguish him from other cats: his weight, the colour of his fur, a torn left ear. We can think of Tom as an instance of the class Felis catus, initialised at conception with his own private data stored in his genes and modified by messages from other cats."

Tom, therefore, is an object. Oop takes this idea as its basic metaphor. An object-oriented program has a series of building blocks or objects, each comprising both data and procedures which act on that data: identity and behaviour.

Messages are used to communicate with these objects and these too can be grouped into classes. And, as with Felis catus, newly created objects can inherit data and procedures from existing objects of the same class.

As a consequence, developers can extend programs with the minimum modification to existing code. The programmer uses existing objects as a base on which to build, rather than starting from scratch. The technique promises to cut out much repetitive coding and to minimise the errors which creep in during modification.

These software "objects" are no more than a collection of electronic impulses stored in the memory of a computer. They have, nevertheless, a level of "intelligence" by virtue of the in-built procedures which define their attributes and behaviour, and this sets them apart from modules in conventional programming.

As an example, Combustion Engineering of Columbus, Ohio, has designed a measurement system for paper-making machinery in which the sensors are grouped in a single class. A generalised message such as "start measuring" can be sent to all the sensors, but each will respond in its own way, following the general and specific characteristics of the software object "sensor".

What advantages does Oop confer in commercial data processing? According to the Ovum study, there are four principal benefits. It is said to improve productivity, perhaps by as much as 15 times, and to make it simpler to model complex systems. Oop systems are designed for change and individual objects are reusable.

There is, however, a long way to go. The technology needs to mature and the smaller suppliers need to become established. And there is the resistance of the traditional data processing establishment to be overcome. Yet Ovum concludes: "The shape of the industry by 1995 will be radically different from today. The eventual commitment of the major hardware vendors, such as IBM and Digital Equipment, to object-oriented systems will ensure the technology becomes part of the mainstream."

For the moment, the supply of object-oriented languages is in the hands of a couple of dozen hardware manufacturers, suppliers of artificial intelligence tool kits and start-up companies.

The oldest Oop language, Simula, for example, is available from the Norwegian company of the same name; the "purest", Smalltalk, developed by Alan Kay at Rank Xerox's Palo Alto Research Centre, is available from ParcPlace Systems of Mountainview, California – Digitalk of Los Angeles offers a low cost version for personal computers.

The fastest growing Oop language is C++, developed by AT&T. Glockenspiel, of Dublin, however, was the main source of versions of the language until mid-1988 when a low-cost compiler was launched by Zortech of the UK.

* *Object-Oriented Systems: the Commercial Benefits. Ovum, 7 Rathbone Street, London W1P 1AF; £550.*

Cover story on the shape of computing to come

Hermann Hauser: new vision of personal computing

"WE'LL have failed if people think of it as a computer," says Hermann Hauser. "We want them to think of it as a book."

Hauser, the physicist who founded Acorn Computers, then sold out when Olivetti bought 80 per cent and became Olivetti's head of corporate research, has a new vision of personal computing.

He calls it the "active book" and believes that it will be the fourth wave of computer innovation, after mainframes, minis and personal computers. It will combine the trend towards increasing computer power in ever-smaller boxes with the familiarity of the book.

Hauser introduced Olivetti to a new approach to innovation with his idea of a global network of eight research laboratories, united in such quests as that for a single "black box" embracing all the electronics to be found on the desk of the well equipped secretary. A prototype is now working, he says. "It's the most exciting thing in Olivetti's laboratories."

Once he had his idiosyncratic research organisation up and running, however, Hauser itched for a new start-up venture. He has found one in the active book, an idea that goes far beyond Olivetti's objectives. "I don't think Olivetti wants to do anything as wild as this."

Late last year he persuaded the Italian group to release him from executive control of research so that he could set up the Active Book Company (ABC), in Cambridge, while retaining a non-executive role as Olivetti's chief scientific director. This year he and three co-directors, all with experience of high-technology start-ups, have assembled a team of 15 in the very premises where he once founded Acorn. So far the four have funded the venture themselves, an investment running into hundreds of thousands of pounds, he says.

ABC aims to exploit what he predicts will be an explosive growth in computing power per cubic centimetre in the 1990s. Hauser believes that the way to make it freely available is to model the machine on the friendliness of the book.

His active books will have impressive computing power packed into something little bigger than a paperback. They will also have such facilities as fax, phone, diary and fast directory, and cordless access to printers and data banks. Graphics and video will be incorporated.

An active book will have no keyboard – he sees this as an unnatural barrier to everyday computing. Instead, the user will have an electronic stylus with which to point, scribble, annotate and sketch on the screen.

Still more to the point, the active book will observe the familiar conventions of covers, contents, chapters, index, footnotes, cross-referencing, and so on. Instead of typing commands, the user will just "turn pages," he says.

Because books are so familiar, people do not think of them as having an inherently rich structure. They are wrong, says Hauser. Moreover, because everything is firmly secured between the covers, "things don't get lost."

Hauser's vision is of a complete communications system "for anyone who spends a substantial amount of his working time away from his desk." As currently envisaged, it should fit into a large pocket and the price would compare with today's cheapest fax machines – £500 to £1,000.

"No day passes in Active Book Company when someone doesn't say, 'If only we had an active book'," the entrepreneur claims. It uses miniaturised technology that has already been demonstrated.

There are technical risks, but no need for breakthroughs to bring the first active books into production, he believes.

The kind of risk he has in mind is that no one has yet put a computer accessed by stylus into large volume production. It also requires some innovative software to integrate all the technology.

Hermann Hauser sold his vision of an integrated electronic system for secretaries to Olivetti executives by brandishing a dummy sculpted in polystyrene foam. He is doing the same thing with his active book, using an inactive model the same size and weight as the intended product.

He aims to have a working model this summer and to "publish" his first active book before the end of next year.

David Fishlock

TECHNOLOGY MARKET

COMMODITIES AND AGRICULTURE

Coffee pact 'murder' sparks price plunge

David Blackwell on the demise of a commodity price agreement

THE AGREEMENT was deliberately murdered by certain parties – that was the verdict of one producer delegate on the demise of the International Coffee Organisation pact on Monday evening.

As it became clearer on Monday afternoon that this time there would be no last minute solution to the ICO's problems prices tumbled in both London and New York. The New York market was closed yesterday for Independence Day, but the fall continued on the London Futures and Options Exchange (Fox), the September robusta contract closing at £880, down £60 down the day and the lowest level since July 1981.

Brazil and Colombia, the two biggest producers, blamed US intransigence for the failure and made no secret of their displeasure. "This is a result that does not please Brazil," said Mr Lindenberg Sette. "We are very frustrated at the outcome of the council," said Mr Nestor Osorio of Colombia, which had worked hard behind the scenes to secure a compromise.

The US, the biggest consumer, remained adamant from the time negotiations started last November that its industry wanted to be able to buy more of the top quality arabica coffees produced by the "other milds" group (mainly in Central America), and that the so-called two-tier market should end. Under the two-tier market producers belonging to the ICO have sold coffee to countries outside the agreement at discounts of up to 50 per cent.

"The consumer criticisms of the agreement were strongly held," said one London analyst yesterday. "I have never seen the US take a position and hold it for so long."

Monday's meeting was a resumption of a special session adjourned early last month after two extension proposals had been proposed but not voted on. The Brazilian/Colombian proposal for a one year extension of the current agreement was backed by the EC, the second biggest consumer block vote, and by most exporters. But the US block vote was enough to knock it down.

The US proposal also sought an extension of one year when the current agreement runs out at the end of September. But it required an immediate reallocation of export quotas to give arabica producers 48 per cent of the market. Brazil was adamant that it would not give up any of its market share.

Once the two major proposals had foundered delegates had little option but to accept a proposal put together by the ICO executive board at the end of last week to extend the agreement for two years – but with no economic provisions. They also voted to suspend immediately the export quota system, rather than let it run on to the end of September.

So the coffee agreement, widely regarded as one of the better agreements in the commodity world, has lost its economic teeth. The export quota system has run since the early 1960s, with gaps from 1973 to 1980, and from February 1986 to September 1987. Since then it has aimed to keep prices in the 120 cents to 140 cents range. Yesterday's daily indicator figure was just 88.35 cents a lb.

The heavy fall in prices will hurt Colombia, which relies on coffee for 40 per cent of its export earnings, more than Brazil, which relies on coffee for just 6 per cent. Hence Colombia's struggle to keep the export quota system going.

"We have made all the effort possible to maintain the agreement alive, renegotiate an extension and find the conditions for a new agreement," said Mr Osorio. "For the last two or three weeks we have been consulting different governments and producers, trying to find a compromise.

"Our proposal was a very good balance. It had very good support from the importing side – the only ones to vote against it were the US and Singapore. We are very sad about that. We have been very responsive to all the US demands."

He criticised the US proposal to give 48 per cent of the export quotas to arabica producers as "a reward for countries that exported to non-members" – a reference to the irony that non-member countries have been buying the top quality "other milds" at a discount not available to ICO members. Colombia had always opposed exports to non-members, he said.

The US no longer had the political will for an agreement, he said, but was more motivated by economic considerations and the demands of the US industry.

Now the coffee world has to adjust to a free market at a time of surplus production over demand. Analysts agree that it is going to take time for things to settle down – market watchers will certainly be keeping a keen eye on the New York opening today after the holiday.

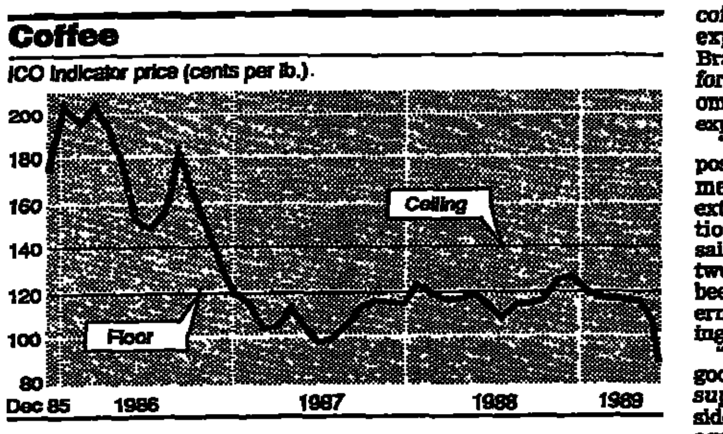
The surpluses are proportionately nowhere near as bad as those faced by the cocoa industry – but they show no sign of coming down. The world's annual crop is about 95m to 100m bags of 60 ks each. Demand from ICO members is around 57m bags; from non-member markets about 8m bags; and about 20m bags are consumed in countries of origin.

However, while producer stocks are believed to be high, consumer stocks are believed to be low as roasters have steered clear of the market in the uncertainty of the past few months. Roasters are looking for top quality coffee, one analyst said yesterday, and at the moment nearby supplies of all types of coffee are tight.

This could lead to a different sort of two-tier market, he suggested, in which roasters pay up for quality, while the terminal markets are left with what he called "fodder".

The coffee world is in for a painful period of adjustment to the reality of the free market. Producing countries will now have to formulate new export policies – and until they are known no-one is predicting where prices will settle. But one thing is sure – the West African robusta growers will find the going toughest. "Some middle of the road African robusta producers might not be able to find buyers – then it doesn't matter what prices are," said one observer.

Coffee
ICO indicator price (cents per lb.)



Market shrugs off Ivorian cocoa move

By David Blackwell

THE LONDON cocoa market yesterday shrugged off overnight news that the Ivory Coast, the world's biggest producer, had finally cut the price it pays to its cocoa farmers.

Mr Denis Bra Kanon, the country's Minister of Agriculture, said in Abidjan that the price would be reduced to 250 CFA francs a kilogram, equivalent to about £480 a tonne, from 400 CFA francs a kilogram.

The September contract on the London Futures and Options Exchange closed at £843 a tonne, down £10 on the day.

A few months ago news of a cut would have had a bigger impact on prices, analysts in London said yesterday. But now the issue of paramount interest in the market is the purchase by Philipp Brothers, the New York based trade house, of 280,000 tonnes of the Ivory Coast's current crop.

"When shipments of that cocoa start coming into the market, it will begin to ease," one analyst said.

The Ivory Coast, which has foreign debt amounting to more than $14bn, has been under increasing pressure for months to cut the prices paid to the cocoa growers by the Caisse de Stabilisation, or commodities marketing board, which has been running up big losses. But President Houphouet Boigny has strongly resisted reducing the price.

The cut takes the price back to a level last seen in 1978, and will cause great hardship to the farmers, one cocoa analyst said yesterday. It went up to 400 CFA francs three years ago. Since then inflation has been running at 5 to 10 per cent a year.

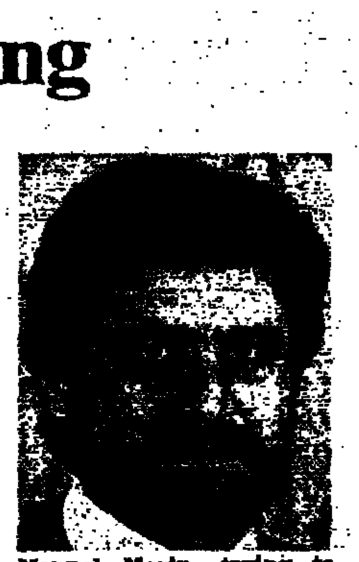
Mr Bra Kanon said the country's farmers would understand this decision taken by the president. "Ivorian peasants have complete confidence in President Felix Houphouet-Boigny and consider that any decision that he takes can only be in their interest," he said.

Brussels taking tougher line on overfishing

By Tim Dickson in Brussels

THE PROBLEM of controlling overfishing in European Community waters – and the strong undercurrent of national sensitivity in this area of policy making – was highlighted in Brussels yesterday with the announcement of a series of legal manoeuvres against three member states.

Together they underline the difficulties faced by the European Commission and its new fisheries commissioner, Mr Manuel Marin, in trying to conserve a scarce resource on the one hand, while attempting to ease the growing financial pressure faced by European fishermen on the other.



Manuel Marin, trying to conserve a scarce resource

Two of the cases involve allegations that France (in 1986) and the UK (in 1985 and 1986) exceeded annual catch quotas negotiated under the Common Fisheries Policy for various key species. Both countries had already been warned under the EC's laborious "infractions" procedure that catches exceeded the fixed limits but in the absence of a satisfactory response the Commission is proceeding to the final stage – namely action in the European Court of Justice.

As one senior Commission official happily admitted yesterday, the details of the offence are largely irrelevant since the Court can do nothing to bring back fish illegally caught three or four years ago.

What lies behind the Brussels strategy, however, is an attempt to get the legal backing of the Community to force member states to improve the national control procedures on which the successful management of the CFP ultimately rests. While the Commission has a 17 strong team of its own inspectors – described yesterday as "a drop in the ocean" – these individuals are employed to check up on national officials, not to monitor the quota system directly.

Similar overfishing cases against other member states are already under way but while one against the Netherlands is already before the court no verdicts have yet been handed down.

British officials argue that one reason for the overfishing in certain zones during the years in question was the late reporting of catches by Spanish-owned boats registered as British vessels (a practice which the UK has controversially outlawed this year). Coincidentally the Commission also announced a separate action against the Madrid Government yesterday for failing to meet its obligation to report certain catches.

Separately also France is in hot water in Brussels for paying what the Commission alleges were illegal regional aids to its fishermen, while another case against the UK (announced publicly yesterday but dating back to April) concerns the UK's extension of its territorial waters from 3 to 12 miles under accepted international rules.

In the process, says Brussels, the UK discovered what are known in the jargon as new "low tide elevations" (notably rock and sand) which again quite legitimately were used as the base line from which these new territorial waters were drawn. However, this has angered Belgium, France and the Netherlands whose fishermen had traditional fishing rights in some of these waters.

Swazi farmers struggle in South Africa's shadow

John Madeley on the country's efforts to achieve food self-sufficiency

ALMOST TOTALLY surrounded by the Republic of South Africa and the large commercial farms of the Transvaal, the small farm sector in Swaziland is struggling to break free from the grip of its dominant neighbour.

Four out of every five Swazi people earn their living from the land and have to compete with food exports from the Republic, which tends to see the Kingdom of Swaziland as a useful place to dispose of some of its surpluses. The result is that South African produce often floods into Swaziland at rock-bottom prices.

"Third-grade produce is often dumped here from South Africa and our farmers just cannot compete," said an official of an $8.3m smallholder project which is trying to strengthen efforts to boost Swazi agriculture.

Despite the cheap imports, food self-sufficiency remains official policy and the project, launched two years ago, has notched up successes. Funded by the Rome-based International Fund for Agricultural Development, the United Nations' small farmer agency, it is rehabilitating smallholder irrigation systems, which have largely fallen into disuse, and creating a new national marketing structure for agricultural produce.

In many parts of the country irrigation canals have now been lined with concrete to enable them to take water to where it is needed, with the result that double-cropping of vegetables is becoming more common. The country's sporadic rain means that most farmers previously obtained only one vegetable crop a year from their land.

The increase in double-cropping is expected to lead to a 40 per cent rise in vegetable output this year. Irrigation is also helping farmers to look forward to a more assured maize harvest.

Maize output rose in 1988 by 14 per cent to 98,180 tonnes and is expected to increase by a further 15 per cent this year.

Although the Swazi Government occasionally exercises its option of closing the border with South Africa, it is eyeing the export market for agricultural produce.

Fruit and vegetables are now exported to neighbouring Mozambique and the smallholder project is encouraging farmers to diversify from their traditional potatoes, tomatoes, onions and cabbage, into higher-value crops which have both domestic and export markets. Ginger, garlic, parsley, radishes, broccoli, celery and leeks have been identified as crops with considerable potential.

But the project has still to overcome the problem that many small farmers lack the knowledge to grow such high-value crops. "We tell the extension service where the potential lies and then it is up to them," said a project official. "But it's still not clear whether the service is equipped to do it."

The new marketing structure is trying to give Swazi farmers a central and organised outlet for their produce. Some 30 kilometres south of the capital, Mbabane, a wholesale fresh produce market has been set up, the first of its kind in Swaziland, that aims to give farmers the confidence to grow more food in the knowledge that they will have a market for it.

"Farmers used to have to take their produce to retailers," said the market's manager, Mr Mike Dlamini; "now they can bring their produce here and agents sell it on their behalf."

Although the market is run by the Government's National Agricultural Marketing Board, it has the novel feature that traders can take their produce to any one of three independent agents who operate on the trading floor.

Potatoes account for nearly 60 per cent of the produce traded. As Swaziland's farmers cannot yet produce enough to meet domestic demand – and as their produce comes on to the market at certain peak times – the wholesale market also handles produce from South Africa.

Mr Dlamini hopes that as Swazi farmers see they have a market for their produce they will grow and sell more and so reduce the amount coming in from the republic.

The agents receive produce from the farmers and pay them later, on a commission basis, for what they sell to retailers. This arrangement is disliked by Swazi farmers who point out that when the agents buy produce from South Africa they pay cash.

But the market's steadily-rising turnover suggests that Swaziland's farmers are, nevertheless, responding to the wholesaling idea. In 1987, its first year of operation, the market handled 500 tonnes of produce and, in 1988, 1,100 tonnes. "In 1989, we expect turnover to be around 1,650 tones," says Mr Dlamini.

WEEKLY METALS PRICES

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market 99.6 per cent, $ per tonne, in warehouse, 2,000-2,100 (1,970-2,080).

BISMUTH: European free market, min. 99.99 per cent, $ per lb, tonne lots in warehouse, 5.10-5.40 (5.30-5.60).

CADMIUM: European free market, min. 99.5 per cent, $ per lb, in warehouse, 5.50-6.00 (5.90-6.20).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 7.45-7.65 (same).

MERCURY: European free market, min. 99.99 per cent, $ per 76 lb flask, in warehouse, 240-250 (240-255).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.50-3.60 (3.60-3.70).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 5.90-6.30 (6.00-6.50).

TUNGSTEN ORE: European free market, standard min. 65 per cent, $ per tonne unit (10 kg) WO, cif, 51-64 (same).

VANADIUM: European free market, min. 98 per cent, $ a lb VO, cif, 5.60-6.00 (same).

URANIUM: Nuexco exchange value, $ per lb, UO, 9.85 (same).

WORLD COMMODITIES PRICES

LONDON MARKETS

SUGAR prices continued to rise yesterday, reflecting nearby tightness, constructive charts, and doubts over whether Brazil will honour some long-term contracts for about 2m tonnes of mainly raw sugar. But further gains are likely to depend on New York, reopening today after the Independence Day holiday. On the LME most base metals were steady. But nickel prices were sharply down on profit-taking, stale bull liquidation and freer lending (selling cash and buying forward). Dealers said the market had run into stiff chart resistance on Monday at $12,000 a tonne after the decline in LME warehouse stocks. Some traders still feel the market has upside potential for the third quarter. But there is still no sign of any significant consumer offtake and much of the recent support seems to have been linked to technical factors.

SPOT MARKETS

Crude oil (per barrel FOB)		+ or -
Dubai	$15.85-6.00w	+.125
Brent Blend	$16.57-6.67	+0.17
W.T.I. (1 pm est)		

Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$211-213	+1
Gas Oil	$146-148	+1
Heavy Fuel Oil	$90-91	+3
Naphtha	$163-165	+2
Petroleum Argus Estimates		

Other		+ or -
Gold (per troy oz)♣	$376.25	+1.00
Silver (per troy oz)♣	524c	+4
Platinum (per troy oz)	$506.15	+2.65
Palladium (per troy oz)	$154.9	+0.9
Aluminium (free market)	$1795	+20
Copper (US Producer)	111⅝-112c	-4½
Lead (US Producer)	38.5c	
Nickel (free market)	565c	-15
Tin (Kuala Lumpur market)	25.37r	
Tin (New York)	459.25c	
Zinc (US Prime Western)	80½c	
Cattle (live weight)†	117.93p	-0.35*
Sheep (dead weight)†	177.57p	-0.39*
Pigs (live weight)†	88.36p	+2.63*
London daily sugar (raw)	$360x	+2
London daily sugar (white)	$461x	-4
Tate and Lyle export price	£342.0	-1.5
Barley (English feed)	£108.5w	+0.5
Maize (US No. 3 yellow)	£131.5	
Wheat (US Dark Northern)	£133	
Rubber (spot)♥	61.75p	+1.25
Rubber (Aug)♥	64.25p	-0.25
Rubber (Sep)♥	65.00p	-0.25
Rubber (KL RSS No 1 Jul)	256.5m	+0.5
Coconut oil (Philippines)§	$550t	
Palm Oil (Malaysian)§	$340w	
Copra (Philippines)§	$350y	
Soyabeans (US)	£208	+1
Cotton "A" index	80.1c	-0.2
Wooltops (64s Super)	622p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Jun. w-Aug. z-Sep. u-Jun/Jul. x-Jul/Aug. t-Aug/Sep. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

COCOA £/tonne

	Close	Previous	High/Low
Jul	820	833	824 817
Sep	843	853	844 839
Dec	888	907	901 895
Mar	889	898	890 885
May	898	906	897 893
Jul	916	919	909 907

Turnover: 1640 (3298) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Jun 30 1040.96 (1035.80) :10 day average for Jul 3 1027.40 (1025.05)

COFFEE £/tonne

	Close	Previous	High/Low
Jul	877	948	890 840
Sep	880	940	895 850
Nov	891	945	909 860
Jan	915	980	920 900
Mar	925	980	935 920
May	945	1010	955 945
Jul	965	1028	975 960

Turnover: 7187 (5973) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Jul 3: Comp. daily 88.35 (97.12) . 15 day average 99.07 (100.46)

SUGAR ($ per tonne)

Raw	Close	Previous	High/Low
Aug	327.80	323.00	327.80 321.00
Oct	328.80	324.40	328.80 323.00
Dec	318.00	316.00	313.00
Mar	309.20	306.80	308.60 305.00
May	305.80	303.80	305.80 304.40
Aug	298.80	297.00	
Oct	288.80	288.00	289.00 288.80

White	Close	Previous	High/Low
Aug	462.00	453.00	463.00 447.00
Oct	423.50	411.00	424.50 409.00
Dec	400.00	391.00	392.50 388.00
Mar	384.50	375.00	384.00 374.00
May	382.50	373.50	382.00 375.00
Aug	382.00	373.00	
Oct	375.00	375.00	372.00

Turnover: Raw 3439 (6463)lots of 50 tonnes. White 2058 (2427).
Paris- White (FFr per tonne): Aug 2990 Oct 2750, Dec 2565, Mar 2500, May 2495, Aug 2490, Oct 2390.

CRUDE OIL $/barrel

	Close	Previous	High/Low
Aug	17.98	17.83	18.10 17.86
Sep	17.47	17.39	17.55 17.39
Oct	17.12	17.12	17.22 17.12
IPE Index	17.75	17.55	

Turnover: 4631 (2701)

GAS OIL $/tonne

	Close	Previous	High/Low
Jul	148.75	148.50	147.25 145.25
Aug	149.00	148.75	148.50 146.50
Sep	149.00	148.00	149.50 148.00
Oct	150.75	150.00	151.00 149.75
Nov	151.75	151.50	152.25 151.50
Dec	152.75	152.00	152.00

Turnover 3447 (2856)lots of 100 tonnes

COTTON
Liverpool- Spot and shipment sales amounted to 327 tonnes yesterday leaving the total for the week so far at 327 tonnes. Fair trading developed mostly in American varieties.

JUTE
C and f Dundee: BTC $550, BTD $490, BWD $490, c and f Antwerp: BTC $520, BWC $510, BWD $490, BTD $460.

LONDON METAL EXCHANGE (Prices supplied by Amalgamated Metal Trading)

	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)					Ring turnover 20,675 tonne	
Cash	1790-5	1765-95	1795/1795	1794-5		
3 months	1770-5	1770-5	1785/1770	1775-7	1770-2	33,523 lots
Copper, Grade A (£ per tonne)					Ring turnover 39,425 tonne	
Cash	1538-9	1538-9	1545/1539	1540-1		
3 months	1516-6.5	1515-7	1520/1505	1517-8	1516-9	75,718 lots
Lead (£ per tonne)					Ring turnover 10,075 tonne	
Cash	424-5	428-30		430-1		
3 months	408-9	411-1.5	410/407	407-8	408-10	9,543 lots
Nickel ($ per tonne)					Ring turnover 1,086 tonne	
Cash	12300-50	12800-8000	12700/12450	12650-700		
3 months	11525-50	11800-25	11800/11525	11650-600	11500-50	6,586 lots
Tin ($ per tonne)					Ring turnover 380 tonne	
Cash	10000-20	9950-80		9870-80		
3 months	9975-80	9950-70	9950/9875	9860-75	9870-10000	1,875 lots
Zinc, Special High Grade ($ per tonne)					Ring turnover 10,550 tonne	
Cash	1625-35	1635-45	1635/1621	1621-2		
3 months	1555-60	1555-60	1560/1545	1555-60	1550-60	11,165 lots
Zinc ($ per tonne)					Ring turnover 8,675 tonne	
Cash	1590-600	1590-00	1600	1600-5		
3 months	1490-500	1490-5	1495/1480	1490-5	1490-5	8,897 lots

POTATOES £/tonne

	Close	Previous	High/Low
Nov	115.0	120.0	115.0 110.0
Feb	130.0	130.0	
Apr	198.0	205.5	207.5 195.0
May	208.0	209.0	211.0 208.0

Turnover 763 (626)lots of 40 tonnes.

SOYABEAN MEAL £/tonne

	Close	Previous	High/Low
Aug	156.50	156.50	
Oct	151.00	149.00	
Dec	148.50	148.50	

Turnover 36 (192)lots of 20 tonnes.

FREIGHT FUTURES $10/index point

	Close	Previous	High/Low
Jul	1365	1373	1370 1365
Aug	1410	1420	1410 1401
Oct	1500	1505	1500 1480
Jan	1565	1545	
Apr	1595	1578	1570
BFI	1414	1414	

Turnover 100 (102)

GRAINS £/tonne

Wheat	Close	Previous	High/Low
Sep	105.95	105.25	
Nov	109.05	108.30	109.05 108.70
Jan	112.65	113.00	112.95 112.35
Mar	115.00	115.55	
May	118.10	118.10	

Barley	Close	Previous	High/Low
Sep	104.20	104.80	104.70 104.00
Nov	108.10	108.05	108.30 107.90
Jan	111.60	112.00	111.75
Mar	114.20		

Turnover: Wheat 36 (32), Barley 65 (65).
Turnover lots of 100 tonnes.

PIGS (Cash Settlement) p/kg

	Close	Previous	High/Low
Aug	112.0	112.0	111.5
Oct	116.5	115.5	116.2
Nov	117.2	117.5	

Turnover 10 (18) lots of 3,250 kg

LONDON BULLION MARKET

Gold (fine oz)	$ price	£ equivalent
Close	376-376½	237-237½
Opening	377¾-378¼	237¾-238
Morning fix	377.5	237.72
Afternoon fix	376.25	237.157
Day's high	378-378½	
Day's low	376-376½	
Coins	**$ price**	**£ equivalent**
Maple leaf	387-392	244-247
Britannia	387-392	244-247
US Eagle	387-392	244-247
Angel	388-393	245-248
Krugerrand	375-378	236-238
New Sov.	88½-89½	55½-56½
Old Sov.	88½-89½	55½-56½
Noble Plat	506.45-515.55	321-325.1
Silver fix	**p/fine oz**	**US cts equiv**
Spot	330.50	523.10
3 months	341.50	535.20
6 months	353.65	547.40
12 months	378.50	570.65

LONDON METAL EXCHANGE TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Sep	Nov	Sep	Nov
1700	100	108	32	47
1800	54	67	76	98
1900	23	37	143	163
Copper (Grade A)	**Calls**		**Puts**	
2300	162	163	61	90
2400	85	105	109	130
2500	50	60	166	200

LONDON FOX TRADED OPTIONS

Sugar No. 5	Calls		Puts	
Strike price $ tonne	Aug	Oct	Aug	Oct
310	21.75	34.50	4.55	15.70
330	15.80	22.25	6.60	23.45
350	13.80	27.15	16.30	28.05
Coffee	**Sep**	**Nov**	**Sep**	**Nov**
900	46	154	68	142
950	28	132	101	172
1000	18	112	140	152
Cocoa	**Sep**	**Dec**	**Sep**	**Dec**
800	54	82	11	34
850	24	55	31	57
900	9	35	65	87

INDICES

REUTERS (Base: September 18 1931 = 100)			
June 30	June 29	mnth ago	yr ago
2027.3	2025.5	1998.7	2004.4

DOW JONES (Base: Dec. 31 1974 = 100)				
Spot	132.80	132.52	131.64	-
Futures	131.37	131.00	131.36	-

Improved prospects seen for Caribbean producers

Canute James on a bank report forecasting better times ahead after a mixed year in 1988

PRODUCERS OF major commodities in the Commonwealth Caribbean had a mixed year in 1988, but see slightly better prospects this year, according to the annual report of the Caribbean Development Bank.

The bank, based in Barbados, said while there were declines in the production of sugar and bauxite, there were good prospects for improvement. Banana exports increased significantly last year, the bank reported, but the industry's future was uncertain because of impending changes in the European Community.

The outlook for the region's sugar industry had improved this year, the bank said, following the decision of the US Government to increase the 1989 import quotas. The Commonwealth Caribbean's quota has been raised to 57,940 tonnes, just under 5,000 tonnes more than last year and 10,000 tonnes higher than 1987.

"Because this increase is related to a temporary domestic supply constraint," the report says, "no substantial increases in output are expected."

The region's overall sugar output last year fell by 2.6 per cent, despite increases of 17 per cent in Jamaica and Trinidad and Tobago. These could not offset a decline of 27 per cent in Guyana, the group's largest producer.

The bank says the industry in the region was affected by poor weather, industrial disputes and labour shortages, as well as by rationalisation of the industries in Barbados, Belize and Guyana, which led to reductions in the acreage under cane.

"Guyana, in addition to failing to satisfy its US quota, had to import sugar towards year-end to meet domestic requirements," said the bank report. "Both Jamaica and Belize were able to take advantage of the shortfall in the US quota."

US markets were closed yesterday for Independence Day.

The 10 per cent increase in the US quota for the group last year was one of two factors which benefitted the industry, it reported. The other was an improvement in world market prices "to the highest level in just under five years."

Despite a 33 per cent increase in banana exports last year, the Commonwealth Caribbean producers continued to be concerned about the likely impact on the industry of the European Community's move to a single market by 1992.

"The possibility that this preferential status will expire at that time," the report concludes, "suggests that regional producers should accelerate efforts to reduce the industry's production cost, thereby improving competitiveness and increasing access to markets outside the EC."

The increase in shipments last year was led by the Windward Islands, the major suppliers to the British market, particularly St Vincent which recorded a 65 per cent improvement in exports. The bank reported that only Jamaica experienced a decline in shipments, because of a hurricane which hit the island last September and halted exports.

"The expansion in regional banana production over the past few years has been associated with the implementation of measures to improve operational efficiency and fruit quality," said the bank.

It reported that banana exporters were helped last year by the relative strength of sterling against the US dollar, when the average price of bananas moved from about $498 a tonne in 1987 to $512 a tonne.

Jamaica and Guyana, the region's bauxite producers, both suffered declines in output, the bank said. Mine output in Jamaica fell by 7.7 per cent while that in Guyana was down 1.8 per cent. Respective government agencies reported that Jamaica's output for last year was 7.4m tonnes, and Guyana's was 1.4m tonnes.

Despite the performances of 1988, said the report, the medium term outlook for both producers is for an increase in output. Refineries in Jamaica are being reopened and expanded, while new mines are being opened in Guyana in joint ventures with foreign investors.

On the prospects for alumina (aluminium oxide) the report said: "Alumina benefitted from an increase in prices and a slight increase in export volume. The forecast is that the alumina market will continue to expand and, given a lack of new capacity, further price increases are expected."

Trinidad and Tobago's oil production, which has been falling for the past three years, was down by 4.4 per cent last year "mainly because of the maturation of existing wells and the high cost of secondary recovery in marine fields." The country's economy, which depends on the oil sector, was adversely affected by price changes, said the bank, as the average world price dropped from $17.20 a barrel in 1987 to $12.10 in the first nine months of last year. Trinidad and Tobago's oil production averaged 150,000 barrels a day last year.

It was also a poor year for Guyana's rice industry. The bank said production fell by 8.3 per cent to 132,100 tonnes, and that the crop was troubled by "prolonged drought conditions and plant fungi which afflicted 30 per cent of the autumn crop.

The country's declared gold output last year was 18,823 ounces, against 30,000 ounces in 1987, while diamond production fell 42 per cent to 4,242 carats. "The effects of drought during the first half of the year and an outbreak of malaria in some areas, contributed to the low level of declarations by miners," the bank explained.

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LONDON STOCK EXCHANGE

Equities firm but turnover dwindles

FURTHER gains in sterling, together with a consequent softening in London money market rates, encouraged a UK stock market largely becalmed yesterday in the absence of a lead from Wall Street, which was closed for Independence day. Share trading in the UK market slowed even further in the second half of the session as the City of London began to thin out in anticipation of today's threatened transport strike in the UK.

Once again, the equity sector opened well but peaked early and closed below the day's best levels. At its final reading, the FT-SE Index showed a gain on the day of 8.8 points at 2,174.4.

Account Dealing Dates

*First Dealings:	Jun 19	Jul 3	Jul 17
Option Declarations:	Jun 29	Jul 13	Jul 27
Last Dealings:	Jun 30	Jul 14	Jul 28
Account Day:	Jul 10	Jul 24	Aug 7

*New time dealings may take place from 8.00 am two business days earlier.

Seaq volume slumped even further, recording 372.2m shares against 410.8m on Monday.

Traders pointed to the low levels of turnover recorded in the previous sessions in New York and Tokyo as the guide to the day's business in London. With UK rail services and the London Underground likely to be halted by labour disputes today, the City of London expects another slow session today.

The international blue chips were either side of their overnight levels for most of yesterday's session, and with bid stocks playing a less prominent role, the market lacked features. However, the tone remained firm despite some adverse comment in the investment press on the renewed rise in domestic consumer spending in May, when retail sales showed a 3 pc gain.

A further improvement in sterling, both on the trade weighted exchange rate and also against the DM reinforced the equity market's optimism on UK base rates. Friday's announcement of the latest US employment data presents the next significant hurdle for international investors.

In the absence of new bid developments, attention focussed around existing bids and similar special situations. Consolidated Gold Fields continued to advance, closing within 12 pence of the £15 seen by the market as the price which Hanson will finally agree to pay for the equity. Shares in Ward White, the retail group, remained well above the price offered by Boots, the UK high street pharmaceuticals store group, signalling the market view that a rival bidder could easily emerge, and either win the fight or force Boots to substantially increase its £800m offer.

The underlying tone of the market remained firm as securities firms waited hopefully for renewed interest from the UK institutions which are know to be heavy with cash. While many fund managers are believed to have missed out on the rise in UK equities at the beginning of the year, most performed well over the second quarter which closed last weekend. The equity market hopes to see new inflows of institutional cash as the current quarter gets under way.

FINANCIAL TIMES STOCK INDICES

	Jul 4	Jul 3	Jun 30	Jun 29	Jun 28	Year Ago	1989 High	1989 Low	Since Compilation High	Since Compilation Low
Government Secs	85.74	85.47	85.01	85.03	85.55	88.17	89.29 (9/2)	83.75 (14/6)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	96.82	96.33	96.27	95.94	96.02	97.36	99.59 (15/3)	95.21 (13/6)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary	1800.3	1781.6	1784.5	1809.8	1832.4	1485.3	1837.5 (19/5)	1447.8 (3/1)	1926.2 (16/7/87)	49.4 (26/6/40)
Gold Mines	196.5	195.2	198.4	198.2	193.2	213.5	196.2 (29/6)	154.7 (17/2)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.46	4.48	4.50	4.43	4.36	4.52				
Earning Yld %(full)	10.42	10.53	10.57	10.43	10.27	11.47				
P/E Ratio(Net)(*)	11.50	11.46	11.41	11.57	11.75	10.61				
SEAQ Bargains(5pm)	22,879	25,078	27,780	25,931	25,274	23,378				
Equity Turnover(£m)†	-	1115.85	1349.05	1458.57	1265.19	1097.52				
Equity Bargains†	-	28,577	31,514	28,437	29,033	23,404				
Shares Traded (ml)†	-	435.1	512.2	455.8	446.2	373.6				

Ordinary Share Index, Hourly changes

Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1800.9	1801.0	1799.9	1799.0	1799.0	1799.8	1799.1	1800.3

DAY'S HIGH 1801.2 DAY'S LOW 1792.5

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974. *Nil 11.39 †Excluding intra-market business.

S.E. ACTIVITY

Indices	Jul 3	Jun 30
Gilt Edged Bargains	85.2	93.4
Equity Bargains	185.8	204.2
Equity Value	2255.4	2728.8
5-Day average		
Gilt Edged Bargains	101.8	103.9
Equity Bargains	188.1	186.7
Equity Value	2629.8	2703.1

London Report and latest Share Index: Tel. 0898 123001

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 5 pm. [illegible]

Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change	Stock	Volume 000's	Closing Price	Day's change
[illegible]				[illegible]				[illegible]				[illegible]			
Brit. Aerospace	4,300	690	+17	GKN	485	396	+1	Plessey	3,700	241	+5	Tate & Lyle	599	259	+4
British Airways	323	205½	+½	Guinness	1,300	509	+5	Polly Peck Intl.	520	289	+3	Taylor Woodrow	131	319	+3
British Gas	4,400	196½	+2	Hammerson "A"	104	790		Prudential	1,200	176½		Tesco	829	183	+½
British Land	20	359	-1	Hanson	2,300	215	+1	RMC	484	455	+1	THORN EMI	239	757	-1
BP	3,600	299½		Harrisons & Cros.	151	164	-1	RHM	90	767		Trafalgar House	2,290	350	-1
British Steel	5,700	73¼		Hawker Siddeley	392	715	+2	RTZ	1,400	493	+8	Trusthouse Forte	1,100	326	+5
British Telecom	6,300	251½	-½	Hillsdown Hldgs	392	274	+3	Racal	2,800	435	+1	Ultramar	3,350	326	+9
Burmah Oil	830	631	+15	IMI	856	230	+1	Rank Org.	505	1033	+29	Unilever	852	599	+6
Burton	1,100	232	+3	Imp. Chem.	676	1260	-3	Reckitt & Colman	81	1118	+5	United Biscuits	2,700	374	+4
Cable & Wireless	1,100	505	-5	Inchcape	351	365	+1	Redland	210	587	+3	Utd Newspapers	150	431	+1
Cadbury Schweppes	2,000	361	+1½	Jaguar	730	348	-5	Reed International	701	414	-2	Wellcome	3,500	446	+6
Carlton Comm.	457	814	-4	Kingfisher	1,300	318	-2	Reuters	286	778	-4	Whitbread "A"	1,137	347	+2
Commercial Union	6,400	384	+6	Ladbroke	1,800	293	+2	Rolls Royce	2,700	193½	+1½	Williams Hldgs.	591	348	-1
Cons. Gold Fields	683	1488	+10	Land Securities	724	571		Rothmans	338	570	-4	Wimpey	95	256	+1

Hefty turnover in CU

Traders in Commercial Union (CU) were misguided for a while by trends in the traded options market, where suggestions that Adsteam, the Australian group, had sold its 12.04 per cent stake circulated widely until the story was firmly denied by Adsteam's London representative.

Shares in CU leapt ahead initially on suggestions that the Adsteam stake had been sold to Credito Italiano, and that the Italian insurance group might be about to launch an all-out bid for the UK insurance company. The shares briefly topped 400p before the story was denied by Mr Ian Craber of Adsteam; finally at 385p, the shares were 7 up on hefty turnover of 6.4m shares.

Mr Craber said Adsteam "had not sold a single share" and that the Adsteam stake was, "the same as the last reported advice, that is 12.04 per cent; we have to live within the provisions of the Companies Act which says if the stake moves below 12 per cent or above 13 per cent, we will have to report it within five days."

Sector specialists said the story could have originated from a misinterpretation of a recent joint venture between CU and Credito Italiano whereby the Italian group took a small stake in CU's Italian businesses.

Beecham attracts

Sudden demand for Beecham took the shares ahead as some institutions seemed to reassess the implications of the planned merger with SmithKline Beckman of the US. Some 5m Beecham shares changed hands and the stock's rise, by 15 to 651p, was given a helping hand by what one dealer described as "a vicious bear squeeze."

The most convincing explanation for the rise was the assessment by some analysts that the new merged entity, SmithKline Beecham, would have a 46 per cent higher capitalisation than Beecham. SKBeecham has been confirmed as a constituent of the FT-SE 100 index, so UK institutions would be likely to increase their weighting. The more nimble of them, felt some, were buying ahead of the rush.

Others spoke of investors who felt that on balance SmithKline Beecham was likely to replace SmithKline Beckman in the New York Standard and Poor's 500. Such a move would be a surprise since SKBeecham will be a UK quoted company. If it happened it would mean heavy buying by US investors, especially index tracking funds.

Meanwhile, dealing in the when-issued form of SmithKline Beecham continued at a desultory rate. Seaq registered 2,000 shares traded as the price firmed 9 to 549p.

Scottish retreats

Scottish & Newcastle (S&N) went down as shares of other Brewers went up. The full-year profits were exceedingly good at £138.2m but in line with expectations and the remaining news items had been well leaked beforehand. These included the purchase of 65 per cent of Center Parcs NV, the publicly-quoted Dutch company, for around £218m, the acquisition of the outstanding equity of Pontins, and the decision to put Thistle Hotels up for sale.

The company made no reference to the Elders-IXL holding and when asked at the ensuing analysts meeting about repurchasing the shares replied that the situation was unresolved and would depend on circumstances. Elders has been granted a further extension of the time limit imposed by the Monopolies & Mergers Commission to reduce the stake.

The fall in S&N shares was a logical reaction to the latter news, said marketmakers. "Buyers are not going to commit funds for investment until this matter is settled and by the look of it that day is even further off", suggested a specialist trader. After volume of 4.2m, the shares closed 5 down at 332p.

TV-am stake sold

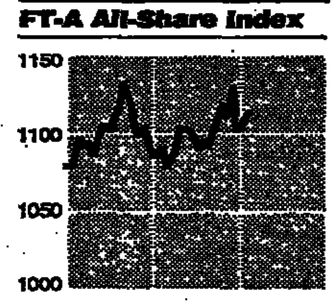
Leisure Group Brent Walker has sold its remaining 9.9 per cent in USM-quoted TV-am, brokers confirmed yesterday. County NatWest WoodMac sold it and placed around 6.3m shares, which corresponds to just less than 10 per cent of the shares in issue.

The consensus was that Brent Walker had moved its holding to County on Friday, that the placing was completed yesterday morning, and that the shares had been sold because efforts to build joint projects in broadcasting had fallen through.

One analyst said he thought the stake had been bought for between 165p and 170p and sold at between 195p and 195p. This concurred with the estimate by Mr Nigel Reed, of Kitcat & Aitken, that Brent Walker had "taken a gross turn of 30-35%."

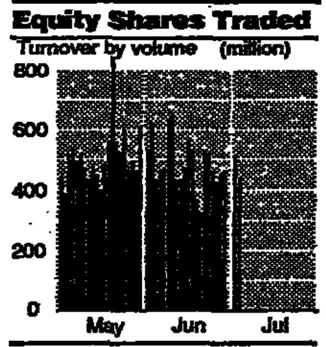
Last month Brent Walker sold just less than a tenth of its 10.8 per cent holding to institutions for what one analyst said was "about 202p." TV-am closed unchanged at 194p.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million)



The CU speculation spilled over into Royal Insurance where Adsteam also has a sizeable stake of around 7 per cent; Royal shares moved up to 403p on the rather tenuous story that Adsteam, if it sold their stake in CU, may have been about to concentrate their predatory attentions on Royal. But little follow-through developed and Royal shares eased back to close a net 5 higher at 394p in trading that fell just short of 1m shares.

Sun Life provided the other story in the insurance sector with dealers suggesting that UAP, the French insurance group, had been adding to its stake in Sun Life, last reported as being 20.2 per cent. Some large deals were reported on the Seaq ticker, notably one of 750,000 shares.

Many recent profits upgradings and a visit by analysts to the company's Galstaff and Sayerlack units in Italy prompted some strong support for Rickson International which rose 7 to 270p, after 272p.

The Boots bid for Ward White remained the biggest talking point in the retailing sector but there was little action in either stocks. Ward White were 2 higher at 444p with traders talking of the possibility of "white knight" or predatory moves against the company from among others, Kingfisher. Boots held at 269p.

Ratners jumped 8 to 255p as the shares responded to the recent series of presentations both in the US and the UK.

Ferranti won the honours in electronics as far as turnover was concerned with a massive 30m shares changing hands. The shares moved up 4 to 90p in response to continuing suggestions that a move by GEC/Siemens to buy the 50 per cent Plessey stake in GPT in the face of tough Ministry of Defence conditions on a full bid for Plessey would lead to a Plessey bid move on Ferranti.

But many analysts remained sceptical about the chances of GEC/Siemens not renewing their bid for Plessey and taking a tilt at Ferranti. Mr Chris Tucker at Kleinwort Benson said "Why on earth didn't they [Plessey] move for Ferranti, which would have been a perfect blocking manoeuvre, when the GEC/Siemens bid was first announced?"

Plessey staged a rally, closing 5 higher at 241p on 3.7m after County NatWest labelled the stock a buy: "We do not believe that GEC/Siemens will abandon its bid, this weakness creates a classic buying opportunity."

The few features in an otherwise dull Engineering sector were based on the reshuffling of old stories. British Aerospace climbed 17 as dealers hoped that the 15 per cent limit on foreign shareholdings would be lifted this week.

H Young issued a profits warning and the shares slumped 28 to 123p. The board blamed "reduced demand for optical frames and lenses, arising out of the imposition of eye test prescription charges."

Rank Organisation climbed 29 to an all time closing high of 1033p, ahead of interims figures out tomorrow week. Volume was a moderate 505,000 shares traded.

Some dealers spoke of a revaluation of the company's Butlins holiday centres after the valuation put on Pontins holiday centres yesterday by Scottish and Newcastle.

A report that Lucas Industries was taking a more cautious view of automotive prospects and stories that a broking house was about to downgrade after a visit to the group's West German operations sent the shares against the trend. Selling was persistent more than heavy and took 12 off the price at 633p.

A weak market since Kleinwort Benson questioned growth prospects and downgraded the stock last month, Bunzl rebounded 7 to 142p.

The approach to Arlington Securities, the sector leader in the development of out-of-town office space, touched off a run for companies in the same field and therefore interests in business parks. Arlington has recently been linked with groups the size of BAA and British Aerospace but neither seemed to fill the bill yesterday as the likely predator. The Kuwait Investment Office, the biggest single shareholder with a stake of 16.2 per cent in Arlington, was also ruled out.

Shortly after the midday announcement, made by the Arlington board because of the recent movement in the shares, the price of Arlington soared to 265p before settling 45 up on the day at 260p in turnover of 709,000 shares. Sheraton Securities was another strong mover with a rise of 6 to 90p.

Properties otherwise displayed few big changes. Recommended over the past week by Smith New Court and Citicorp Scrimgeour Vickers, Greycoat rose 6 to 485p. Lifted by the potential of its Hammersmith development, Bredero Properties advanced 11 to 315p.

Halved annual profits failed to upset Lister, 4 dearer at 135p, while Illingworth Morris shot 26 higher to 170p on yet another approach which the company said could lead to an offer of 185p a share.

Two houses, one with US associations, caught the market out in British & Commonwealth, which may be set to buy Bell Lawrie, the top Scottish broking house. A spate of covering ensued, attracting the interest of some institutional investors, and the shares surged 10 to 168p in volume of 2.4m. Traders were sceptical of the recovery, using the market terminology of "only a dead cat bounce." Said one marketmaker disillusioned by numerous unsuccessful rallies over the past year, "probably yet another false dawn but only time will tell."

The purchase of the life assurance business of Industrial Equity (IEL) by Tyndall Holding's assurance and fund management subsidary Clayton Robard (CRL) for A$10.1m, to be satisfied by the issue of shares, assisted both parent and CRL. IEL will additionally subscribe for further CRL shares, news which left CRL up 3 at 28p. Tyndall hardened to 102p.

The oil sector drew further support from the latest strong upward move by crude oil prices. These were again boosted by the heightened strike action by North Sea oil rig workers as the anniversary of the Piper Alpha platform disaster approaches. Mr Nick Clayton, of the oil team at Smith New Court, said oil prices are "well on target to achieve at least our $17.50 average target for the year."

Ultramar shares extended their strong run, adding 9 at 326p on turnover of 3.3m, still boosted by talk that it is about to announce the sale of four of its oil/bulk ore carriers for around $148m. Burmah were among the sector's best performers, adding 15 at 631p on larger than average turnover of 800,000 shares; talk in the market was of a developing stock shortage.

British Gas edged up 2 to 196½p on turnover of 4.4m after news of the management changes which were revealed at a presentation to analysts at London's St James's Hotel.

■ Other market statistics, including FT-Actuaries Share Index and London Traded Options, Page 24

NEW HIGHS AND LOWS FOR 1989

[illegible] & Giles Intl., Paton, TDK Corpn., ENGINEERING (8) Charnring Grp., Cook (Wm.), Sabre, Hill & Smith, Powerscreen Intl., FOODS (3) INDUSTRIALS (16) Ass. Brit. Consultants, Barry Wehmiller, Beaverco, Brooks Service, Charter Cons., Eastern Prod., Halma, Intereurope Tech., Masterlens Grp., Norfolk House Grp., Ropner, Do. "A", Stoddard, Sylbone, Unilever, Wyko Grp., INSURANCE (3) Allianz AG, Comm. Union, Sun Life, LEISURE (2) Barr & WAT "A", GWR Grp., MOTORS (2) NEWSPAPERS (1) Home Counties Hldgs., PAPERS (8) PROPERTY (7) SHIPPING (2) SHOES (1) [illegible]

NEW LOWS [illegible] AMERICANS (1) CANADIANS (1) BUILDINGS (1) CHEMICALS (1) Gaynor Grp., STORES (3) ELECTRICALS (1) ENGINEERING (2) INDUSTRIALS (8) C'bell & Armstrong, Lincat Grp., Low & Bonar, Raume-Repola, SI Grp., Spandex, Third Mile Inv., Westmex, Young (H.), INSURANCE (1) Bradstock Grp., LEISURE (2) Bond Media, Hanimex, MOTORS (2) PAPERS (1) Waddington (J.), PROPERTY (3) Prop Co. of London, Warringtons, SOUTH AFRICANS (1) Anglo Am. Ind., TEXTILES (1) Richards, TRUSTS (1) Siam Fund, OILS (1) Int. Pet. Crpn., MINES (3) THIRD MARKET (2).

APPOINTMENTS

Littlewoods re-organises

■ The LITTLEWOODS ORGANISATION has re-organised its retailing activities. Index, the catalogue shop division, becomes a separate trading division with Mr Desmond Pitcher, group chief executive, as chairman. Mr James Higginbottom joins from Argos as managing director. Mr Franek Low joins from Leyland DAF Group as finance director. Mr Bill Huntley becomes managing director of the home shopping division, and Mr Terry Hurst joins from GEC Plessey Telecommunications as finance director. Mr Trevor Lerman has been appointed buying director, and Mr David Fish sales and operations director of the chain store division. In group marketing Mr Colin Stanhope becomes director group marketing policy and Mr Roy Watson is made director group buying policy.

New structure at British Gas

■ BRITISH GAS has been re-organised into three business units - UK gas supply, exploration and production, and new business dvelopment - resulting in the following appointments: Mr Norman Blacker, group executive member responsible for six regions; Mr James McHugh, group executive member responsible for six regions and the national transmission system; Mr Ron Probert, group executive member responsible for regional marketing, distribution, finance, personnel, supplies and transport, information technology, and planning; Mr Chris Brierley, group executive member responsible for gas acquisition, common carriage, regulatory affairs, UK gas supply strategy, and gas supply/demand analysis; Mr Cedric Brown, group executive member responsible for exploration and production; Mr Allan Sutcliffe, group executive member responsible for finance; Mr Charles Donovan, group executive member responsible for corporate staff (secretariat and legal, personnel, corporate affairs, economic planning, information technology, research and development, and supplies and transport).

Guinness strategic affairs director

■ Mr Peter Mitchell has been appointed strategic affairs director of GUINNESS. He was external affairs director of United Distillers, the spirits company of Guinness.

■ At the annual meeting of ELF AQUITAINE UK (HOLDINGS) Professor Peter Moore was appointed a non-executive director. Professor Moore is principal of the London Business School and president of the Royal Statistical Society.

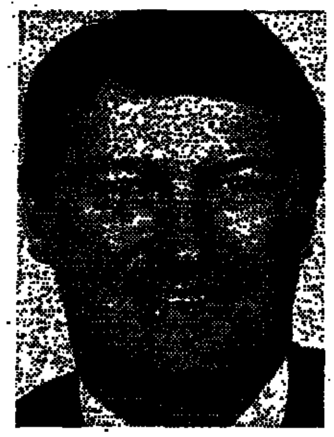
■ Mr John Kirkpatrick has been appointed chief industrial adviser and a director of 3i. He has been running one of the industrial advisory teams at 3i's industry department at Solihull.

■ Mr Richard A. Dalzell, who joined Willis Faber Group as deputy finance director in March 1988, has been appointed a director of WILLIS FABER, and group finance director.

■ LILLESHALL has appointed Mr R.E. Hitchcock and Mr P.R. Lower as directors. Mr Hitchcock is responsible for the building products division and Mr Lower for the industrial distribution division. Mr A.F. Hanson is retiring.

■ Mr Colin Morrison has been appointed deputy chief executive of the REED BUSINESS PUBLISHING GROUP. He has been successively responsible for the group's interests in the retail, catering, transport and courtesy magazine sectors. Mr James Weymouth and Mr Richard Dangerfield have been appointed to the RBPG board.

■ BEESON GREGORY, a newly-formed corporate stockbroker, has made the following board apppointments: Mr Andrew Beeson, chief executive; Mr John Tilbrook, finance director; Mr John Gordon, Mr John Gregory, Mr Robert Lederman, Mr John Moxon and Mr James Flower have become directors. Mr Ari Zaphiriou-Zarifi, Mr Norman Baldock and Mr Ric Berman have been appointed non-executive directors.



Mr Nick Aitchison (above) has been appointed managing director, business development, at H.P. BULMER HOLDINGS. He will be responsible for Dent & Reuss (Bulmers wine and spirit division), Symonds' Cider, exports, strategic planning, new product development, and technical services.

FT LAW REPORTS

Pension discrimination case is not out of time

KAPUR AND OTHERS v BARCLAYS BANK PLC
Court of Appeal (Lord Justice Neill, Lord Justice Bingham and Lord Justice Mann): June 29 1989

A DISCRIMINATORY pension scheme run by an employer is a continuing act of discrimination against the disadvantaged employee, to be treated as occurring when his employment terminates; and the three-month time limit for complaining of racial discrimination to an industrial tribunal therefore begins to run from retirement date, not from date of entry into the scheme.

The Court of Appeal so held when allowing an appeal by Mr Krishan Lal Kapur, Mr Victor De Souza, Mr Harnek Singh Dahele, Mr Ambalal Narambhai Patel and Mr Haribhai Chimanlal Patel, from an Employment Appeal Tribunal (EAT) decision that an industrial tribunal had no jurisdiction to hear their complaints of racial discrimination allegedly committed by Barclays Bank plc, on the ground that they were presented out of time.

LORD JUSTICE NEILL said that around 1970 a policy of Africanisation came into force in a number of former colonial East African territories.

Persons of Asian origin were then faced with the choice of adopting full citizenship of those countries and giving up any rights they might have to come to the UK, or of leaving the East African country altogether.

At the time many people of Asian origin, including the five applicants, worked in banks. Some 300 people in that category came to the UK in the early 1970s and became bank employees in various parts of the country.

One of the applicants, Mr De Victor De Souza, who was of Indian origin, began employment with Barclays DCO in Kenya. Barclays DCO later became Barclays International plc which subsequently amalgamated with the respondent bank, Barclays Bank plc.

In December 1969 Mr De Souza was told that under Kenyan immigration provisions his work permit would expire in May 1970. His employment with Barclays DCO came to an end on May 17 1970. He decided not to take up Kenyan citizenship, and received an ex gratia payment in lieu of any pension or other severance pay.

The respondent bank offered employment in the UK to a number of dismissed Kenyan employees, including Mr De Souza.

The terms and conditions relating to his employment included a provision that any pension granted by the bank will not take into account any previous years of service with Barclays Bank DCO.

Mr De Souza signed a copy of the terms and conditions. On October 9 1970 he signed a further document agreeing that his service with Barclays DCO would be "disregarded for all pension purposes."

The circumstances relating to the other applicants were similar. The facts varied in detail, but they followed a consistent pattern.

On leaving Barclays DCO in Tanzania Mr Kapur was granted a deferred pension. He accepted an offer of employment in the UK on terms that his pension would not take previous service in Tanzania into account.

The case of Mr HC Patel was different in that the bank for which he worked in Kenya was not associated with Barclays. The pension trustees might not have power to take his previous service into account.

Mr Kapur's originating application was lodged on October 5 1987. He alleged unlawful discrimination on the grounds of colour, racial or ethnic origin. He said he believed that the bank had accredited previous service to employees of European origin who joined it in the UK at about the same time as he did.

If the applications proceeded it would be necessary to investigate the facts carefully. At the present stage the court was concerned only with the preliminary question whether the applications were lodged in time within the three months' time limit in section 68(1) of the Race Relations Act 1976.

Section 68(1) provided that a tribunal should should not consider a complaint of racial discrimination unless it was presented "before the end of ... three months beginning when the act complained of was done."

The question was: when was the act complained of done?

Section 1(1) of the Act provided that a person discriminated against another for the purposes of the Act if "(a)on racial grounds he treats that other less favourably than he treats or would treat other persons."

The term "racial grounds" was defined in section 3(1) as meaning on grounds of "colour, race, nationality or ethnic or national origins."

Section 4(2) provided that it was unlawful for a person to discriminate against an employee "(b) in the way he affords him access to ... benefits ... (c)by dismissing him or subjecting him to any other detriment."

The applicants argued that paragraphs (b) and (c) were relevant to their claims.

The bank denied discrimination. It argued, however, that even if discrimination did take place it occurred many years ago, between 1971 and 1974, and accordingly the industrial tribunal had no jurisdiction.

Section 68(7) of the Act provided (a) that when the inclusion of a term in a contract rendered the making of the contract an unlawful act, that act was treated as extending throughout the duration of the contract.

It was common ground that the applicants could not rely on (a). When the contracts of employment were made the 1976 Act was not yet in force.

Section 68(7)(b) provided that "any act extending over a period shall be treated as done at the end of that period."

The applicants submitted inter alia that they had been subjected to continuing acts throughout the period of their employment.

They said they had suffered discrimination in the way in which the bank had offered them "access to benefits," or alternatively, they had been "subjected to a detriment."

They submitted they were subjected to a continuing regime which gave them unfavourable pension rights compared with Europeans in a similar position.

The applicants' argument was sound. If they had been paid at a lower rate than Europeans that discrimination would plainly be a continuing act of discrimination.

The right to a pension formed part of the overall remuneration of an employee. If his pension entitlement could be shown to be less favourable than that of other employees, that disadvantage continued throughout the period of his employment.

The right to a pension could be judged at the moment of retirement.

In the case of the two applicants who had now retired, that was less than three months before the date their applications were lodged. If they could show that at the moment of retirement they were afforded access to pension benefits less favourable than those afforded to other people, they might be able to establish a case of unlawful discrimination.

The applicants were entitled to put forward their claims, and the industrial tribunal had jurisdiction to hear them.

There was support for that conclusion in the EAT judgment in Calder v James Finlay [1989] ICR 157.

In that case the applicant's requests for mortgage subsidy were refused on the ground that they were not available to female employees. Her last request was made in May 1981. She left the company in October 1981 and presented a complaint to the tribunal within three months.

The EAT held that the refusal in May 1981 was not the last act of discrimination. Mr Justice Browne-Wilkinson said: "The rule of the scheme constituted a discriminatory act extending over the period of her employment and is therefore to be treated as having been done at the end of her employment."

The appeals were allowed.

LORD JUSTICE BINGHAM agreeing said the question at this stage was not whether the complaints were justified, but whether they might be investigated.

If the applicants could make good their case on the facts it might be said that the bank had discriminated unlawfully against them. A pension was, after all, deferred payment, and the situation was much the same, if the facts were established, as if the applicants had month by month been paid less than their white comparators. Lord Justice Mann gave a concurring judgment.

For the applicants: Ian MacDonald QC and Elizabeth McNeill (Lawford & Co, Richmond).
For the Bank: Thomas Morison QC and Nicholas Underhill (Lovell White Durrant).

Rachel Davies
Barrister

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AUTHORISED UNIT TRUSTS

Merlin Jupiter Unit Tst Mngmt Ltd (0905)F
197 Knightsbridge, London SW7 1RB 01-581 3020

	Init Chrge	Bid Price	Offer Price	+ or -	Yield Gr's
Merlin Intl	5	57.90	59.34	62.46	-0.07 1.88
Ecology	5	60.77	62.51	65.80	-0.38 1.72

Metropolitan Unit Trust Mngrs Ltd (1000)F
3 Darkes Lane, Potters Bar EN6 1AJ. 0707 45184

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Eurogrowth Plus	6	61.93	62.56	66.54	+0.26	0.71
Global Growth	5¼	44.11	44.11	46.93	-0.22	0.55
Global Income Acc.	5¼	58.75	59.29xd	63.07	-0.03	3.17
Do Income	5¼	55.04	55.54xd	59.09	-0.03	3.38
Sunrise Accum	6	56.17	57.37	61.03	-0.25	0.00
UK Growth Acc	5¼	57.15	58.29xd	62.01	+1.01	1.61
UK Income Acc	5¼	70.20	72.26	76.87	+0.33	3.90
Do Income	5¼	66.08	68.02	72.36	+0.31	4.15

Midland Unit Trusts Ltd (1200)F
192 Eyre Street, Sheffield, S1 3RD 0742 529888

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
British Tst	6	57.94	58.30	62.35	+0.33	2.22
(Accum Units)	6	58.88	59.25	63.37	+0.34	2.22
Capital	6	120.2	120.2xd	128.6	+0.6	1.97
(Accum Units)	6	174.0	174.0	186.1	+1.0	1.97
European Growth	6	129.9	129.9xd	138.4	-0.1	0.39
(Accum Units)	6	159.9	159.9	170.4	-0.2	0.39
Extra High Inc	6	70.18	71.19xd	76.14	+0.28	6.43
(Accum Units)	6	96.24	97.61	104.4	+0.4	6.43
Gilt & Fxd Int	4	51.00	51.85xd	53.22	+0.16	8.76
(Accum Units)	4	102.3	102.4	106.8	+0.4	8.76
High Yield	6	205.6	208.3	222.8	+1.2	4.90
(Accum Units)	6	396.2	401.5	429.4	+2.4	4.90
Income	6	245.0	247.8	265.0	+1.6	3.40
(Accum Units)	6	435.5	440.5	471.1	+2.8	3.40
Intl High St UT	6	55.68	55.68	59.55	+0.08	1.58
(Accum Units)	6	57.39	57.39	61.38	+0.09	1.58
Japan Growth	6	376.7	376.7	403.1	+0.2	0.00
(Accum Units)	6	396.0	396.1	423.7	+0.3	0.00
Mandarin Tst	6	55.62	55.65	59.52	-0.25	0.78
(Accum Units)	6	56.08	56.11	60.01	-0.25	0.78
Mngd P'folio Acc	6	70.39	71.11	76.50	+0.05	1.61
Money Market UT	4	49.32	49.33	51.30	+0.01	10.78
North American	6	122.6	124.5xd	133.2	-1.4	0.40
(Accum Units)	6	151.4	153.7	164.4	-1.8	0.40
Smaller Cos	6	183.5	183.5	196.3	-0.4	1.29
(Accum Units)	6	203.5	203.5	217.6	-0.5	1.29
Meridian Income	6	107.0	108.1xd	115.6	+0.4	3.73
(Accum Units)	6	110.9	112.0	119.8	+0.4	3.73
Meridian Growth	6	117.7	118.6	126.8	+0.3	1.47
Midland Personal Pension Unit Trust*						
British	6	58.59	59.26	63.04	+0.35	2.21
European Growth	6	59.29	59.42	63.21	-0.04	0.39
Gilt & F Intd	6	50.39	50.39	53.60	+0.16	8.45
Income	6	54.83	55.72	59.28	+0.35	3.46
Japan Growth	6	55.19	55.51	59.05	+0.03	0.00
Managed	6	55.49	56.34	59.94	+0.04	1.62
Money Market	6	52.73	52.73	55.89	+0.01	10.72
North American	6	57.32	58.50	62.23	-0.69	0.41
Midland FSAVCS Unit Trust*						
British	6	55.36	56.00	59.57	+0.31	2.22
European Growth	6	57.83	57.95	61.65	-0.04	0.39
Gilt & Fixed Int	4	49.58	49.58	52.74	+0.17	8.56
Income	6	55.64	56.58	60.19	+0.36	3.49
Japan Growth	6	57.42	57.74	61.43	+0.05	0.00
Managed	6	54.61	55.45	58.99	+0.03	1.62
Money Market	6	50.82	50.82	53.87	+0.01	10.70
North American	6	57.46	58.85	62.61	-0.69	0.41

Pearl Unit Trusts Ltd (1000)H
PO Box 500, Thorpe Wood, Peterborough PE3 6GD
Dealing: 0800 626577 Enquiries: 0733 67767

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Growth	5	117.0	119.5xd	125.6	+1.0	2.57
(Accum Units)	5	186.5	190.2	200.2	+1.5	2.57
Income	6	176.0	179.0	190.4	+1.5	3.63
Equity	6	174.8	177.6xd	188.9	+1.4	2.40
(Accum Units)	6	326.2	331.5	352.6	+2.5	2.40
Intl Equity	6	171.0	173.0	184.0	+0.6	1.44
(Accum Units)	6	177.0	179.1	190.5	+0.6	1.44
UK Income	6	46.69	47.38	50.40	+0.38	5.83

Pembroke Administration Ltd (1700)F
18-19 Sandland St, London WC1R 4PZ. 01-430 0556

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Pembroke Accum	5	82.30	84.44	89.50	.....	10.00

Perpetual Unit Tst Mngmt (1600)F
48 Hart Street, Henley on Thames 0491 576868

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
International Gwth	5¼	337.80	337.80	361.29	-1.60	1.44
Income	5	243.31	243.31	260.23	+0.62	4.09
W'wide Recovery	5¼	197.77	197.77	211.52	-0.92	1.65
American Growth	5¼	88.61	88.61	94.78	-0.98	1.35
Intl Emerging Cos	5¼	88.37	88.37	94.52	-0.38	0.92
Far East Gwth	5¼	118.40	118.40	126.64	-0.09	2.00
European Gwth	5¼	80.50	80.50	86.10	+0.08	1.10
UK Growth	5¼	45.71	45.71	48.89	+0.46	2.66
High Income	5¼	55.92	55.92xd	59.17	-1.75	5.85
Japanese Gwth	5¼	116.48	116.48	123.89	+0.59	0.01

Phillips & Drew Unit Managers Ltd
14 Finsbury Square, London EC2A 1PD 01-628 6070

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Charities F'xd Int		99.15	99.15	99.28	.....	9.6
Charities Ind Ltd		101.24	101.24	101.43	.....	2.2
UK Exempt		104.7	104.7	106.6	.....	4.4
Charities Intl		108.2	108.2	109.2	.....	2.7

Prolific Unit Tst Mngrs Ltd (1200)H
222 Bishopsgate, London EC2 01-247 7544/7

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Income	5	63.89	64.58	68.78	-0.64	3.91
Conv & Gilt	5	127.9	127.9xd	136.4	+0.5	6.28
Euro Gwth & Inc	5	51.52	51.52	55.10	-1.08	2.08
Extra Income	5	138.7	140.2xd	149.8	+1.8	4.89
Far East	5	244.1	245.0	260.4	+0.2	0.01
High Income	5	89.59	89.59	95.51	-0.07	4.20
International	5	145.9	147.1	156.5	-1.1	0.82
Nth American	5	147.9	148.9	159.3	-1.4	0.01
Pref & Fxd Int	5	46.77	46.77	49.75	-1.0	0.40
Special Sits	5	111.8	111.8xd	119.5	+1.4	0.48
Technology	5	137.4	137.4xd	146.6	-0.3	0.55

Providence Capital Fd Mgrs Ltd (1000)H
30 Uxbridge Road, London W12 8PG 01-749 9111

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Worldwide Inc	5	97.08	97.08	103.6	-0.5	0.29
Worldwide Acc	5	101.20	101.20	107.90	-0.5	0.29
UK Equity Inc	5	75.38	75.38xd	80.94	+0.77	3.10
UK Equity Acc	5	82.91	82.91xd	89.02	+0.84	3.10
European Inc	5	117.80	117.80	126.00	+0.6	0.56
European Acc	5	122.00	122.00	130.50	+0.6	0.56
Nth American Inc	5	63.33	63.33	67.30	-0.46	1.49
Nth American Acc	5	65.67	65.67	69.801	-0.47	1.49
Japan Inc	5	116.30	116.30	124.40	-0.2	0.00
Japan Acc	5	116.50	116.5	124.70	-0.2	0.00
UK High Inc Eq Inc	5	70.95	70.95xd	76.63	+0.79	5.89
UK High Inc Eq Acc	5	80.72	80.72xd	87.21	+0.9	5.89
Hong Kong Inc	5	36.80	36.80	39.24	+0.59	3.41
Hong Kong Acc	5	38.08	38.08	40.60	+0.61	3.41
Swiss Equities Inc	5	38.02	38.02	40.77	+0.29	1.17
Swiss Equities Acc	5	38.35	38.35	41.13	+0.3	1.17
W'wide Bond Inc	5	52.90	52.90	55.87	-0.15	5.80
W'wide Bond Acc	5	54.62	54.62	57.68	-0.16	5.80
Emerging Asia Inc	5	80.20	80.20	85.94	-0.82	0.00
Emerging Asia Acc	5	80.20	80.20	85.94	-0.82	0.00

Provident Mutual Unit Tst Mgrs Ltd (0905)H
25-31 Moorgate, London, EC2R 6BA. 01-588 3963

	Init Chrge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
PM Equity Gth	5	120.2	122.2	129.9		2.66
PM Income & Gth	5	103.5	105.3	112.0	+0.2	4.68
PM Nth Amer Gth	5	53.85	53.85	57.28	-0.59	1.32
PM European Gth	5	57.28	57.28	60.93	-0.28	0.73
PM Japan Gth	5	77.19	77.36	82.29	-0.15	0.30
PM Overseas Gth	5	52.57	52.57	55.92	-0.17	0.47

GUIDE TO UNIT TRUST PRICING

INITIAL CHARGES
These represent the marketing, administrative and other costs which have to be paid by new purchasers. These charges are included in the price when the customer buys units.

OFFER PRICE
The price at which units may be bought.

BID PRICE
The price at which units may be sold.

CANCELLATION PRICE
The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, unit trust managers quote a much narrower spread. As a result, the bid price is often set well above the minimum permissible price which is called the cancellation price in the table. However the bid price might be moved to the cancellation price in circumstances in which there is a large excess of sellers of units over buyers.

TIME
The time shown alongside the fund manager's name is the time at which the unit trusts' daily dealing prices are normally set unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: ¥ - 0001 to 1100 hours; ♦ - 1101 to 1400 hours; ▲ - 1401 to 1700 hours; ♦ - 1701 to midnight.

HISTORIC PRICING
The letter H denotes that the managers will deal on a historic price basis. This means that investors can obtain a firm quotation at the time of dealing. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis.

FORWARD PRICING
The letter F denotes that prices are set on a forward basis so that investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper show the prices at which deals were carried out yesterday.

SCHEME PARTICULARS AND REPORTS
The most recent report and scheme particulars can be obtained free of charge from fund managers.
Other explanatory notes contained in last column of the FT Unit Trust Information pages.

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● Current Unit Trust Prices are available on FT Cityline. To obtain your free Unit Trust Code Booklet ring the FT Cityline help desk on 01-925-2128

OTHER UK UNIT TRUSTS

INSURANCES

Continued on next page

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OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

GUERNSEY (SIB RECOGNISED)

JERSEY (SIB RECOGNISED)

IoM (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

SWITZERLAND (SIB RECOGNISED)

GUERNSEY (**)

JERSEY (**)

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FT UNIT TRUST INFORMATION SERVICE

ISLE OF MAN (**)

LUXEMBOURG (**)

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

LONDON SHARE SERVICE

BRITISH FUNDS

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		"Shorts" (Lives up to Five Years)				
99⅞	98	Exch 10pc 1989	99		–	–
99	98	Exch 11pc 1989	99	+	11.07	13.16
98	95	Treas 5pc 1986-89	98	+	5.10	11.78
99	98	Exch 10½pcCv '89	99	+	10.35	12.82
101	99	Treas 13pc 1990	100	+	12.96	12.25
130	124	Treas 2pc IL '90(84.6)	130		2.09	9.98
99	98	Exch 11pc 1990	99	+	11.10	12.60
101	99	Exch. 12½pc 1990	99	+	12.52	12.71
94	91	Treas. 3pc 1990	94	+	3.19	10.72
96	95	Treas 8¼pc 1987-90	96	+	8.57	12.57
98	95	Treas. 8pc Cv 1990	96	+	8.31	11.95
98	96	Treas. 10pcCv 1990	97	+	10.30	12.41
91	87	Exch 2½pc 1990	91	+	2.75	9.64
101	98	Treas 11¾pc 1991	99	+	11.82	12.14
92	89	Funding 5¾pc '87-91	91	+	6.26	11.01
89	86	Treas. 3pc 1991	88	+	3.38	9.77
100	95	Treas 10pc Cv '91	96	+	10.35	11.95
101	97	Exch. 11pc 1991	98	+	11.17	11.74
94	91	Treas. 8pc 1991	92	+	8.66	11.68
106	102	Treas 12¾pc 1992	103	+	12.37	11.31
99½	95	Treas 10pc 1992	96	+	10.31	11.36
94	91	Treas. 8pc 1992	92	+	8.68	11.35
100	96	Treas 10½pc Cv 1992	98	+	10.70	11.26
85	82	Treas. 3pc 1992	83	+	3.59	9.57
105	101	Exch. 12¼pc '92	102	+	11.94	11.23
109	104	Exch 13½pc 1992	106	+	12.73	11.15
94	90	Treas 8¼pc 1993	91	+	8.99	11.05
100	95	Treas 10pc 1993	97	+	10.26	10.82
108	103	Treas 12½pc 1993	105	+	11.90	10.91
87	84	Funding 6pc 1993	85	+	7.02	10.33
113	108	Treas 13¾pc 1993	109	+	12.52	10.85
94	89	Treas. 8½pc 1994	91	+	9.26	10.80
117	112	Treas 14½pc 1994	113	+	12.73	10.61
113	107	Exch 13½pc 1994	109	+	12.32	10.87
100	95	Treas. 10pc Ln. 1994	97	+	10.26	10.66
		Five to Fifteen Years				
110¼	104	Exch. 12½pc 1994	106	+	11.75	10.85
96	91	Treas 9pc 1994	93	+	9.64	10.64
108	102	Treas 12pc 1995	104	+	11.45	10.82
79	74	Exch 3pc Gas 90-95	75	+	4.00	8.53
101	95	Exch. 10¼pc 1995	97	+	10.46	10.71
113	107	Treas 12¾pc 1995	109	+	11.63	10.61
119	112	Treas. 14pc '96	114	+	12.20	10.80
97½	91	Treas. 9pc 1992-96	93	+	9.64	10.39
126	119	Treas 15¼pc 1996	121½	+	12.55	10.70
117	110	Exch 13¼pc 1996	112	+	11.79	10.65
101	94	Conversion 10pc 1996	97	+	10.31	10.59
118	110	Treas 13¼pc 1997	113	+	11.68	10.61
104	97	Exch 10½pc 1997	99	+	10.53	10.55
95	88	Treas 8¾pc 1997	91	+	9.58	10.34
128	120	Exch 15pc 1997	122	+	12.20	10.74
100	93	Exch. 9¾pc 1998	96	+	10.13	10.43
84	78	Treas 6¾pc 1995-98	81	+	8.33	10.02
134	125	Treas. 15½pc '98	128	+	12.07	10.59
113	105	Exch. 12pc 1998	108	+	11.05	10.52
100	93	Treas 9½pc 1999	96	+	9.89	10.15
115	107	Exch. 12¼pc 1999	110	+	11.10	10.51
105	97	Treas. 10½pc 1999	100	+	10.44	10.39
104	96	Conversion 10¼pc 1999	99	+	10.33	10.37
94	86	Treas. 8½pc Ln 2000	89	+	9.48	10.12
97	90	Conversion 9pc 2000	92	+	9.71	10.13
122	113	Treas. 13pc 2000	116	+	11.20	10.49
103	95	Treas 10pc 2001	98	+	10.14	10.20
124	115½	Treas. 14pc '98-01	118½	+	11.82	10.71
102	94	Conversion 9¾pc 2001	97	+	10.02	10.14
113	105½	Exch. 12pc '99-02	108	+	11.06	10.57
104	96	Conversion 10pc 2002	99	+	10.05	10.07
102	94	Treas 9¾pc 2002	97	+	9.97	10.04
97	89	Exch. 9pc 2002	92	+	9.70	9.97
126	117	Treas. 13¾pc 2000-03	120	+	11.40	10.55
105	97	Treas 10pc 2003	100		9.960	9.93
113	104	Treas. 11½pc 2001-04	107	+	10.67	10.33
106	97	Treas. 10pc 2004	100	+	9.90	9.86

BRITISH FUNDS—Contd

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
		Over Fifteen Years				
59	55	Funding 3½pc '99-04	57	+	6.13	8.65
102	94	Conversion 9½pc 2004	97	+	9.72	9.78
103	94	Conversion 9½pc 2005	97	+	9.70	9.75
111	102	Exch 10½pc 2005	105	+	9.90	9.74
125	115	Treas. 12½pc 2003-05	119	+	10.49	9.95
90	82	Treas. 8pc 2002-06	86	+	9.28	9.65
105	97	Conversion 9¾pc 2006	100	+	9.68	9.66
118	109	Treas. 11¾pc 2003-07	113	+	10.39	9.96
96	87	Treas 8½pc 2007	91	+	9.28	9.48
134	123	Treas. 13½pc '04-08	127	+	10.57	9.88
101	92	Treas. 9pc 2008	96	+	9.37	9.44
92	84	Treas 8pc 2009	87	+	9.15	9.39
102	93	Conv 9pc Ln 2011	96	+	9.28	9.32
68	62	Treas. 5½pc 2008-12	65	+	8.43	9.12
89	82	Treas. 7¾pc 2012-15	85	+	9.10	9.28
132	121	Exch. 12pc '13-'17	125	+	9.58	9.34
		Undated				
45	41½	Consols 4pc	42	+	9.36	–
40	36	War Loan 3½pc	38	+	9.19	–
70	60	Conv. 3½pc '61 Aft.	65	+	5.34	–
41	31	Treas. 3pc '66 Aft.	34	+	8.67	–
30	26	Consols 2½pc	27	+	9.25	–
29½	25	Treas 2½pc	26	+	9.35	–
		Index-Linked (b)			(1)	(2)
108	103	Tr. 2pc '92(97.8)	108	+	2.92	3.91
100	94	Do. 2 '94 (102.9)	100	+	3.15	3.69
147	139	Do. 2pc '96(67.9)	147	+	3.29	3.67
125	118	Do 2½pc '01(78.3)	125	+	3.51	3.76
122	115	Do. 2½pc '03(78.8)	122	+	3.54	3.76
125	117	Do. 2pc '06(69.5)	125	+	3.58	3.76
117	110	Do. 2½pc '09(78.8)	117	+	3.58	3.74
123	114	Do. 2½pc '11(74.6)	122	+	3.57	3.73
102	95	Do. 2½pc '13(89.2)	101	+	3.57	3.69
110	101	Do. 2½pc '16(81.6)	109	+	3.55	3.66
108	100	Do. 2½pc '20(83.0)	107	+	3.53	3.59
91	84	Do. 2½pc '24(97.7)	90	+	3.43	3.54

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for October 1988: 109.5 and for May 1989: 115.0.

INT. BANK AND O'SEAS

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
108	99½	African Dv Bk 11¼Ln 2010	103	+	10.78	10.73
104	96	Asian Dev Bk 10¼pcLn2009	99	+	10.32	10.32
130	119	Australia 13½pc 2010	123	+	10.95	10.70
113	102	Do. 11¾pcLn2015	106	+	10.69	10.64
108	99	Euro Inv Bk 11pc Ln 2002	103	+	10.68	10.56
104	95	Do. 10¼pc2004	99	+	10.48	10.50
119	109	Int-Am Dev Bk 12½pc 2003	112	+	11.10	10.71
99	90	Do. 9¾pcLn 2015	93	+	10.42	10.47
97½	91½	Mlysia 10¾pcLn 2009	92		11.65	11.76
120	117	Utd. Mexican States 16½pc 2008	117		13.98	13.80

CORPORATION LOANS

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
102	99½	Birmingham 13½pc 1989	99½		13.57	11.20
111½	102½	Do. 11½pc 2012	104½		11.00	11.00
91	86½	GLC 6¾pc 1990-92	87½		7.71	11.80
124	114	Leeds 13½pc 2006	119		11.30	10.94
33	30	Liverpool 3½pc Irred	30		11.67	–
94½	92	LCC 6¾pc '88-90	94½		7.14	11.90
30	27	Do. 3pc '20 Aft.	28		10.71	–
107½	101½	Manchester 11½pc 2007	104½		11.00	10.90

COMMONWEALTH & AFRICAN LOANS

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
89½	86½	NZ 7¼pc 1988-92	88½	+	8.19	11.80
206	206	S Rhod 2½pc Non-Assd	206		–	–
84½	84½	Do. 4½pc 87-92 Assd.	84½		5.33	9.33

LOANS

Building Societies

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
99	98	N'wide Anglia 10pc 17.7.89	99		10.70	14.02
99	98	Do. 11pc 7.8.89	99		11.10	14.19
99	98	Do. 11pc 29.8.89	99		11.63	14.19
99	99	Do. 12½pc 18.9.89	99		12.44	14.18
99	99	Do. 12pc 2.10.89	99		12.39	14.17
99	98	Do. 11pc 6.11.89	98		11.94	14.32
100	98	Do. 12pc 4.12.89	99		12.43	14.20
100	99	Do. 12pc 2.1.90	99		12.91	14.29
100	98	Do 12pc 29.1.90	99		12.68	14.27
100	98	Do 12pc 26.2.90	98		12.83	14.29
100	98	Do. 12pc 19.3.90	98		13.01	14.28
102	98½	Do. 5½pcIL Ln 2021	101	+	4.38	4.45

Public Board and Ind.

1989 High	Low	Stock	Price £	+ or –	Yield Int.	Red.
47	45	Met. Wtr. 3pc 'B'	46		6.52	10.41

FOREIGN BONDS & RAILS

1989 High	Low	Stock	Price £	+ or –	Div % Gross	Red. Yield
45	40	Greek 7pc Ass.	40		3.50	18.75
45	40	Do. 6pc 28 Stb Ass.	40		3	17.50
45	40	Do 4pc Mixed Ass.	40		3	15.00
80	65	Hung. '24 Ass	80		2.75	13.57
139	128	Hydro Quebec 15pc 2011	132	+	15.00	11.07
128	118	Iceland 14½pc Ln 2016	122	+	14.50	11.72
97	91	Ireland 9¾pc '91-96	92		9.75	11.30

AMERICANS

1989 High	Low	Stock	Price £	+ or –	Div Gross	C'vr	Y'ld Gr's
39	26	Abbott Laboratories	36	–	$1.20	–	2.1
579p	361p	Allegheny & W Ic	488p	+10	30c	–	3.9
17	12	Amax $1	15		80c	–	3.3
11	6	Ambase Corp $1	8		20c	–	1.4
15	956p	Amdahl 5c	10	+	b10c	–	0.6
35	25	Amer. Cyanamid $5	34		$1.35	–	2.5
22	14	Amer Express 60c	21	–	84c	–	2.5
14	854p	Amer Medical Int. $1	14	+	72c	–	3.2
23	15	American T. & T. $1	21	–	$1.20	–	3.5
39	26	Ameritech $1	36	–	h$2.92	–	5.1
19	9	BankAmerica $1	16	–	60c	–	2.3
32½	19	Bankers N Y. $1	30	+	$2.08	–	4.3
59	38	Bell Atlantic $1	54	–	$4.08	–	4.7
32	19	BellSouth Corp	30	+	$2.52	–	5.2
15	12	Bethlehem Steel $8	13	–	–	–	–
11	922p	Bio-Rad Labs. A	922p	–21	–	–	–
20	15	Bowater Inc	17	+	$1.12	–	4.0
12	9	Brunswick 75c	10	–	44c	–	2.6
42	28	CPC Intnl 25c	39	–	$1.60	–	2.6
22	17	CSX $1	20	+	$1.24	–	3.8
798p	333p	California Engy	721p	–7	–	–	–
35	17	Campbell Soup 15c	31	–	92c	–	1.9
25	15	Chase Manhattan $12½	23		$2.36	–	6.5
23	17	Chem. Banking Corpn	22	+	$2.72	–	7.6
16	13	Chrysler $6¼	15		$1.20	–	4.8
22	14	Citicorp $1	19		$1.62	–	5.2
230p	136p	CityFed Fin. Corp	158p	+7	4c	–	1.6
34	25	Colgate-Palmolive $1	32	–	$1.48	–	2.9
21	16	Cons Freightways 62½c	18	+	95c	–	3.4
17	10	Cont'l Bank Corp $4	14	–	80c	–	3.4
387½p	300p	Corporate Data Scnce	305p		–	–	–

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

LONDON SHARE SERVICE

AMERICANS—Contd

1989 High	Low	Stock	Price £	+ or —	Div Gross	C'vr	Y'ld Gr's
597p	278p	Cullinet Sftwr 1c	551p	+2	—	—	—
27½	21¼	Dana Corp. $1	25⅞	—¼	$1.60	—	4.0
12	854p	Data General	11	.....	—	—	—
38	28¾	Dun & Bradstreet $1	36½	.....	$2.00	—	3.5
41¾	30½	Eaton Corpn. 50c	38[illegible]	—½	h$2.06	—	3.3
11¾	8⅞	Echlin Inc.	10½[illegible]	—⅛	70c	—	4.2
20⅝	16⅞	FPL Group 1c	19½[illegible]	—⅛	$2.28	—	7.4
32⅞	27⅞	Ford Motor $1	30⅝	—⅛	$3.00	—	6.2
45⅝	30⅝	GATX .42½c	44¼	—¼	$2.00	—	2.9
35¾	24¼	Gen. Elect. 63c	32¾	.....	$1.64	—	3.2
568p	484p	♦General Host Corp $1	504p	—13	30c	—	3.8
39⅛	18¼	Gillette $1	25½	—½	96c	—	2.4
987p	616p	Gt Am First Svgs Bk $1	796[illegible]	.....	60c	—	4.8
23⅝	16¾	Greyhound $1½	20[illegible]	—¼	$1.32	—	4.0
14¼	847p	Hasbro Inc 50c	13¼	.....	16c	—	0.8
49⅞	32¾	Honeywell $1½	46[illegible]	—½	$2.10	—	2.9
21¼	15¼	Houston Inc's. ‡	20	.....	$2.96	—	9.4
74⅝	63¼	IBM Corpn $1¼	70[illegible]	—[illegible]	$4.84	—	4.3
55p	45p	♦Image Storage/R Sys.1c	55p	.....	—	—	—
28¼	18¾	Ingersoll-Rand $2	25[illegible]	—⅛	$1.20	—	2.9
33	22½	Lockheed Crpn. $1	30[illegible]	—½	$1.60	—	3.4
22¾	15¾	Lone Star Inds $1	19¾	—½	$1.90	—	6.2
25	17½	Louisiana Land 15c	22[illegible]	—¼	$1.00	—	2.8
17	11½	Lowe's 50c	16	—⅛	48c	—	1.9
25	15⅞	Manuf. Hanover $1	23¼	—⅛	$3.28	—	8.9
20½	13¾	Merrill Lynch $1	18¾	.....	$1.00	—	3.5
2253p	1910p	Molex Inc.	2046p	—9	3.2c	—	—
27¾	18¾	Morgan (JP) $2½	24¼[illegible]	.....	$1.66	—	4.3
54½	36¼	NYNEX $1	50¼	+⅛	$4.36	—	5.5
24⅝	18¾	PHH Corp. ‡	22½	.....	$1.12	—	3.1
259p	220p	♦Pacific Agr. ‡	225p	.....	—	—	—
27¾	19	Pacificorp $3¼	25½	+¼	$2.76	—	6.6

[illegible]

CANADIANS

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Contd

[illegible]

ELECTRICALS

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INSURANCES

[illegible]

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LONDON SHARE SERVICE

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INSURANCES—Contd

LEISURE

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING, ADVERTISING—Contd

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

TRUSTS, FINANCE, LAND—Contd

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Contd

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Contd

Tins

Miscellaneous

THIRD MARKET

21½	17	Scott Pickford 10p.. γ	18	-1	3.1	0.7	23.0	9.3
160	95	Seacon Hldgs...... γ	139	-5	2.5	6.1	2.4	8.7
•17½	5½	Stalis Hldgs. 5p. .. γ	10½	+½	-	-	-	13.0
•3¼	1¾	Swanyard Studios 1p γ	3½		-	-	-	●
11	7	Systems Connections 2½p γ	9	+½	-	-	-	11.8
85	28	Tomorrows Leisure 20p γ	83	+5	-	-	-	41.3
19	11	Tullow Oil 10p.... γ	16	+½	-	-	-	-
113	93	UPL Group 10p..... γ	93	-2	2.75	●	3.9	●
150	135	Unit Group .... γ	147xd	-1	5.0	●	4.5	●
14	5	Vista Ents 5p.. ... γ	9¾	-¾	-	-	-	-
40	35	Vizcaya Hldgs 5p . γ	36	...	-	-	-	-
36½	23	Whitegate Leisure 20p. γ	34	.....	-	-	-	-
24	10	Do. Wrrnts...... ... γ	23	+½	-	-	-	-
10¼	5	Wilton Group 1p... γ	9¼	......	-	-	-	-

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ● USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- § Not comparable
- ● Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr, Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p.... γ	98	....
Craig & Rose £1... γ	720xd	....
Finlay Pkg. 5p.... γ	88	....
Holt (Jos) 25p..... γ	1325	-5

IRISH

Cap. 8½% Ln. 1991...	£97¼	....
9pc Cap Ln. 1996...	£90½	-¼
Fin. 13% 97/02...	£120	....
Arnotts................	410	....
Carroll (P.J.)...... γ	145	....
Hall (R. & H.).......	165	....
Heiton Hldgs....... γ	71	....
Irish Ropes..........	200	....
United Drug.........	135	....

TRADITIONAL OPTIONS

3-month call rates

Industrials

Property

Oils

Mines

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £985 per annum for each security.

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar eases in quiet trading

THE DOLLAR finished little changed from opening levels yesterday, but showed a softer tone from Monday's close. The US unit failed to recover from losses suffered in Tokyo where the Bank of Japan took advantage of the relatively low trading volume and sold dollars.

Activity in London was at a low ebb because all US trading centres were closed yesterday for Independence Day. The dollar suffered losses as investors were taking profits which involved unwinding long dollar positions. This followed a fall in the value of the yen after municipal elections in Tokyo saw the ruling Liberal Democratic Party fare badly.

The weaker undertone also reflected uncertainty ahead of the US Federal Open Market Committee meeting which starts today. Many investors are looking for a further relaxation in monetary conditions following indications that US economic growth may be slowing down.

Attention is now more likely to shift towards interest rate differentials. The possibility of lower US rates coming after last week's increase in most European rates have combined to take some of the shine off the dollar's attraction. Market sentiment will probably remain neutral however at least until the release of US employment data for June on Friday.

The dollar closed at DM1.9215 from DM1.9285 and SFr1.6465 compared with SFr1.6545. It was also lower against the French franc at FFr6.5225 from FFr6.5500. However, it improved against the yen to Y141.55 from Y141.25.

On Bank of England figures, the dollar's exchange rate index fell from 71.1 to 70.9.

Sterling benefited from the dollar's weaker tone; its exchange rate index moved up to 91.2 at the close from 90.8 on Monday. There was no economic data to influence trading, and none is expected until next week, when producer prices, unemployment and average earnings are all due for release. Analysts expect this to be the next testing time for the pound; until then little activity is expected, and the pound's performance is likely to mirror movements in the dollar.

Sterling closed at $1.5875 from $1.5775 and DM3.0500 compared with DM3.0425. It was also higher against the yen at Y224.75 from Y222.75. Elsewhere, it finished at SFr2.6150 from SFr2.6100 and FFr10.3550 against FFr10.3325.

Firmer interest rates in Paris underpinned the French franc yesterday, and pushed the D-Mark down to FFr3.3940 from FFr3.3950 in very thin trading. However, the D-Mark continued to improve against the yen, closing at Y73.67 from Y73.22 on Monday. Investor confidence continues to be undermined by the scandals involving Mr Sosuke Uno, the Japanese Prime Minister.

Meanwhile, West Germany's trade surplus increased in May to DM10.5bn from DM9.9bn in April, while industrial output for the same month fell by 3.7 per cent. Technical factors accounted for much of the contraction.

£ IN NEW YORK

July.3	Close	Previous Close
£ Spot	1.5770-1.5780	1.5770-1.5780
1 month	0.62-0.61pm	0.62-0.61pm
3 months	1.80-1.77pm	1.80-1.77pm
12 months	6.98-6.88pm	6.98-6.88pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	July.4	Previous
8.30 am	91.2	90.6
9.00 am	91.2	90.5
10.00 am	91.1	90.6
11.00 am	91.1	90.6
Noon	91.2	90.5
1.00 pm	91.2	90.6
2.00 pm	91.1	90.7
3.00 pm	91.1	90.7
4.00 pm	91.2	90.8

CURRENCY RATES

July.4	Bank rate %	Special* Drawing Rights	European † Currency Unit
Sterling #	-	1.25002	1.47456
U.S Dollar	7	1.25374	1.07591
Canadian $	12.39	N/A	1.28346
Austrian Sch.	5	17.0784	14.5679
Belgian Franc	7.75	50.8172	43.3351
Danish Krone	7½	9.41433	8.04836
Deutsche Mark	5.00	2.42624	2.07027
Neth.Guilder	5.50	2.73503	2.33344
French Franc	9½	8.23770	7.02678
Italian Lira	13½	1756.23	1498.85
Japanese Yen	2½	181.416	152.403
Norway Krone	8	8.85767	7.58303
Spanish Peseta	-	153.485	130.842
Swedish Krona	9½	8.25149	7.04830
Swiss Franc	5.5	2.07995	1.77687
Greek Drach.	20½	208.928	178.644
Irish Punt	-	N/A	0.777562

Sterling quoted in terms of SDR and ECU per £. † European Commission Calculations. * All SDR rates are for July.3

CURRENCY MOVEMENTS

OTHER CURRENCIES

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu July.4	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.3351	+2.07	+0.94	±1.5424
Danish Krone	7.85212	8.04836	+2.50	+1.37	±1.6419
German D-Mark	2.05853	2.07027	+0.57	-0.56	±1.1019
French Franc	6.90403	7.02678	+1.78	+0.65	±1.3719
Dutch Guilder	2.31943	2.33344	+0.60	-0.53	±1.5019
Irish Punt	0.768411	0.777562	+1.19	+0.06	±1.6689
Italian Lira	1483.58	1498.85	+1.03	+0.48	±4.0815
Spanish Peseta	133.804	130.842	-2.21	-	-

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT- FORWARD AGAINST THE POUND

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

EURO-CURRENCY INTEREST RATES

EXCHANGE CROSS RATES

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES

Better trend in short sterling

THE LIFFE market was subdued in London yesterday, with short sterling and West German Government bond futures trading onlyaround 13,000 contracts each.

Underlying sentiment was good, amid recent signs of a slow down in the UK economy and a slight improvement in the trade position, while the Bundesbank has acted to stem inflationary pressure in Germany with a rise in interest rates.

Against this background any easing of the US dollar will be seen as beneficial to Europe. The US currency continued to fall yesterday, but without any guidance from the US where markets were closed for Independence Day. Fears of a recession are tending to drive the dollar lower, encouraging speculation today's meeting of the Federal Open Market committee will vote for an easing of monetary policy.

This helped underpin sterling and D-Mark based contracts yesterday. September three-month sterling futures opened firmer at 86.10 and traded within a narrow range of 86.04 to 86.14, before closing at 86.09 compared with 85.98 previously. The contract is now well established towards the top of a 85.75 to 86.25 target range, with some traders now seeing an upward target of 86.50.

September German bonds were firm, rising to 95.35.

LONDON (LIFFE)

CHICAGO

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5875	1.5815	1.5699	1.5507	1.5190

IMM-STERLING $s per £

	Close	High	Low	Prev.
Sep	1.5628	1.5660	1.5550	1.5628
Dec	1.5434	1.5450	1.5370	1.5434
Mar	1.5262	1.5280	-	1.5262

EUROPEAN OPTIONS EXCHANGE

TOTAL VOLUME IN CONTRACTS : 48,560

A=Ask B=Bid C=Call P=Put

MONEY MARKETS

London rates ease

THERE WAS a slight easing of interest rates on the London money market yesterday, encouraged by a firmer pound. Sterling gained further ground against the dollar and the D-Mark, leading to a fall to 14⅛-13¹⁵⁄₁₆ per cent from 14¼-14 per cent in sterling three-month interbank. A much larger than expected fall in June UK official reserves had no impact on the market.

The Bank of England initially forecast a day-to-day credit shortage of £500m, but revised this to a shortage of £550m at noon. Help of £570m was provided, all before lunch, when the authorities bought band 1 bank bills at 13⅞ per cent.

UK clearing bank base lending rate 14 per cent from May 24

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £88m, with Exchequer transactions absorbing £670m. These factors outweighed a fall in the note circulation adding £50m to liquidity and bank balances above target of £230m.

In Frankfurt call money edged down to 6.95 per cent from 7.00 per cent, taking it slightly below the 7.00 per cent Lombard emergency financing rate. The market now awaits the outcome of this week's securities repurchase tender, with dealers hoping the authorities will provide more than the DM34.1bn leaving the banking system as two earlier pacts expire.

Another two-tranche agreement has been offered and the result will be made known today. Banks have been asked to bid for 28-day funds, at a fixed rate of 6.6 per cent and for a 42-day agreement at variable rates. The fixed rate tender encouraged hopes the Bundesbank was providing guidance on the level of rates, but the offer of variable longer term money has renewed nervousness, amid concerns that smaller banks will drive rates up to around 7.00 per cent. The last variable rate tender was set at 6.50 to 6.75 per cent on June 21, but this was before last week's rise in the Bundesbank's interest rates.

In Zurich the Swiss National Bank raised its floating Lombard rate to 8¾ per cent from 8½ per cent.

In Tokyo dealers were surprised when the Bank of Japan let the secured overnight call rate fall to 5 per cent from its opening level of 5¼ per cent. This followed a sharp decline in the unsecured overnight rate. Movements in secured call money during the day are unusual and this may indicate the central bank is adopting a more flexible approach to rates. The market does not believe it points to any fundamental change in monetary policy however.

FT LONDON INTERBANK FIXING

(11.00 a.m. July.4) 3 months US dollars		6 months US Dollars	
bid 9⅛	offer 9¼	bid 8⅞	offer 9

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

July.3					
Prime rate	11	One month	7.81	Three year	8.00
Broker loan rate	10½-¾	Two month	7.95	Four year	7.96
Fed.funds	9½	Three month	8.23	Five year	8.00
Fed.funds at intervention	-	Six month	8.11	Seven year	8.09
		One year	8.06	10-year	8.10
		Two year	8.02	30-year	8.08

July.4	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	6.90-7.00	6.90-7.05	6.90-7.05	6.95-7.10	7.00-7.15	7.00
Paris	9½-9⅝	9⅛-9⅛	9⅛-9⅛	9⅛-9⅞	9⅝-9⅞	8.75
Zurich	6¾-7⅛	7⅛-7½	-	7⅛-7½	-	-
Amsterdam	6.75-6.88	7.00-7.10	-	7.18-7.28	-	-
Tokyo	5⅛-5⅛	5⅝-5⅝	-	5⅞-5⅞	-	-
Milan	12⅝-12½	12⅞-12⅞	-	12½-13	-	-
Brussels	6.65	8⅛-8⅛	-	8½-8⅞	-	-
Dublin	7⅝-7⅞	9½-9⅞	9⅞-10	9⅞-10⅛	10⅛-10⅛	-

LONDON MONEY RATES

July.4	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	14	14	13⅞	14⅛	14⅛	14
Interbank Bid	10	13⅞	13⅞	13⅞	13⅞	13⅞
Sterling CDs	-	-	13⅞	13⅞	13⅞	13⅞
Local Authority Deps.	13⅞	13⅞	13⅞	13⅞	13⅞	13⅞
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	13⅞	13⅞	13⅞	13⅞	-	-
Company Deposits	-	-	13⅞	14	14	13⅞
Finance House Deposits	-	-	13⅞	14	14	13⅞
Treasury Bills (Buy)	-	-	13⅝	13½	-	-
Bank Bills (Buy)	-	-	13⅞	13⅞	13⅞	-
Fine Trade Bills (Buy)	-	-	14⅛	14⅛	13⅞	-
Dollar CDs	-	-	9.35	9.15	8.95	8.85
SDR Linked Dep Offer	-	-	8⅞	8⅞	8⅞	8⅞
SDR Linked Dep Bid	-	-	8⅞	8⅞	8⅞	8⅞
ECU Linked Dep Offer	-	-	9⅛	9⅛	9⅛	9⅛
ECU Linked Dep Bid	-	-	8⅞	9⅞	9⅞	9⅞

Treasury Bills (sell); one-month 13¼ per cent; three months 13⅞ per cent; Bank Bills (sell); one-month 13¹³⁄₁₆ per cent; three months 13¹³⁄₁₆ per cent; Treasury Bills; Average tender rate of discount 13.6226 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day June.30, 1989. Agreed rates for period July 26,1989 to August 25, 1989, Scheme I: 14.90 p.c., Schemes II & III: 15.51 p.c. Reference rate for period June.1 to June.30, 1989, Scheme IV&V: 14.175 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 14 from July.1, 1989: Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 9½ per cent; one-three months 11 per cent; three-six months 11 per cent; six-nine months 11 per cent; nine-twelve months 11 per cent; Under £100,000 9½ per cent from December 1,1988, Deposits withdrawn for cash 5 per cent.

BASE LENDING RATES

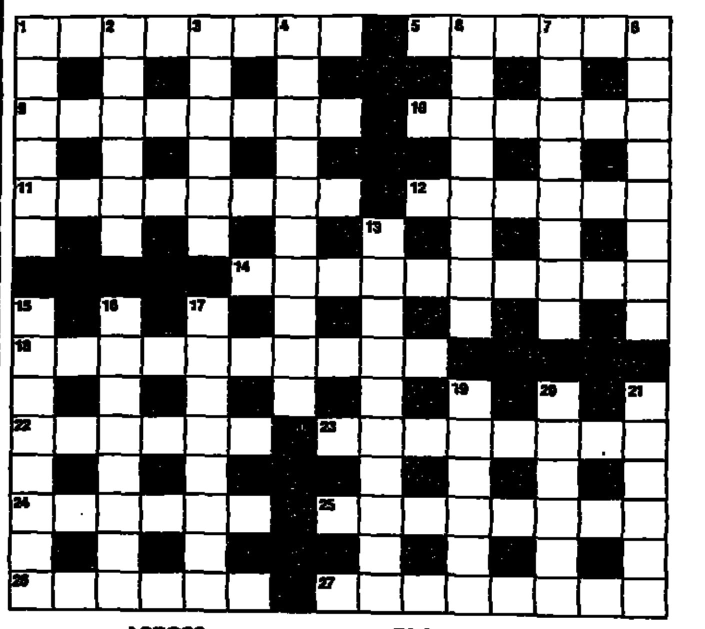
FT 30	FTSE 100	WALL STREET
Jul. 1795/1804 +4	Jul. 2169/2179 +4	Jul. 2452/2464 +1
Sep. 1809/1800 +4	Sep. 2186/2196 +4	Sep. 2467/2479 -1

Prices taken at 5pm and change is from previous close at 9pm

JOTTER PAD

CROSSWORD

No.6,977 Set by FRESCA



ACROSS
1 Bit of a quiet leader? (8)
5 See 14
9 She arose – transformed in the main (8)
10 Quartet or half sextet appear at royal display (6)
11 Glass that pupil looks into? (8)
12 Street wisdom that turns on a kind of alcohol (6)
14 and 5 Creepy sit-com a dud! Rewrite as this? (7,3,6)
18 They never fade – though perpetually inexpert at meeting society (10)
22 Thinly scattered as boxes at the end of time (6)
23 Draw wrong angle? It's on the small side (8)
24 Repository for everything when it's raining outside (6)
25 Civic dignitary: a tree-feller, one might say (8)
26 Swelling hymn finishing immoderately loud at end of service (6)
27 Duke in a picture with dead rose (8)

DOWN
1 Model modelled without being put into position (6)
2 "It cracked and growled, and — and howled" (Coleridge) (6)
3 Reagan's eleven out – caught! It's derisive! (6)
4 Diehards may fight for them with love, brandishing cutlasses around (4,6)
6 Diplomatic approach from the orchestra (8)
7 Listener's medications start off optic discharges (8)
8 Singer – one shouting about party back-up (8)
13 Confederate general's strategy – initially behaves very defensively in the field (10)
15 Swing her round, George! (8)
16 Remembered being brought home? (8)
17 A kind of porcelain protection for the very young (8)
19 It can make building blocks go briskly (6)
20 Movingly photographed? (6)
21 Got in touch with doctor about unit (6)

Solution to Puzzle No.6,976

WORLD STOCK MARKETS

AUSTRIA · BELGIUM/LUXEMBOURG · DENMARK · FINLAND · FRANCE · FRANCE (continued) · GERMANY (continued) · ITALY (continued) · NETHERLANDS · NORWAY · SPAIN · ITALY · SWEDEN · SWITZERLAND · SOUTH AFRICA · GERMANY · JAPAN · AUSTRALIA · AUSTRALIA (continued) · HONG KONG · SINGAPORE

INDICES

NEW YORK — DOW JONES

	July 3	June 30	June 29	June 28	1989 High	1989 Low	Since compilation High	Since compilation Low
◊Industrials	2452.77	2440.06	2458.27	2504.74	2531.87 (23/6)	2144.64 (3/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	92.37	92.24	92.06	92.27	92.52 (14/6)	87.35 (23/3)	–	–
Transport	1164.46	1148.77	1152.98	1178.85	1192.59 (27/6)	959.95 (3/1)	1192.59 (27/6/89)	12.32 (8/7/32)
Utilities	210.07	209.70	209.34	211.30	211.77 (27/6)	181.84 (24/2)	227.83 (22/1/87)	10.50 (8/4/32)

◊Day's High 2461.49 (2466.05) Low 2424.37 (2412.94)

STANDARD AND POOR'S	July 3	June 30	June 29	June 28	1989 High	1989 Low	Since compilation High	Since compilation Low
Composite ‡	319.23	317.98	319.68	325.81	328.44 (27/6)	275.31 (3/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	364.82	363.48	365.70	372.92	375.71 (27/6)	318.66 (3/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	30.34	30.17	30.31	30.84	31.15 (27/6)	24.30 (3/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	178.51	177.90	178.75	181.87	183.18 (27/6)	154.98 (3/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	358.83	358.97	360.61	366.01	366.43 (27/6)	305.24 (3/1)	366.43 (27/6/89)	29.31 (9/12/72)
NASDAQ OTC Comp	436.00	435.29	437.91	444.90	453.65 (9/6)	378.56 (3/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Jun 30	Jun 23	Jun 16	year ago (approx.)
Dow Industrial Div. Yield	3.70	3.57	3.59	3.50
	June 28	June 21	June 14	year ago (approx.)
S & P Industrial div. yield	3.00	3.05	3.00	3.03
S & P Indl. P/E ratio	13.72	13.48	13.62	14.42

TRADING ACTIVITY † Volume (Millions)

	July 3	June 30	June 29
New York	68.931	170.490	169.942
Amex	4.946	10.731	13.599
OTC	53.203	137.103	142.033

NEW YORK	July 3	June 30	June 29
Issues Traded	1,870	1,968	1,968
Rises	747	637	263
Falls	593	894	1,327
Unchanged	530	437	388
New Highs	29	34	39
New Lows	10	35	33

CANADA

TORONTO	July 3	June 30	June 29	June 28	1989 High	1989 Low
Metals & Minerals	(c)	3278.1	3263.2	3292.7	3564.9 (6/2)	3207.5 (3/1)
Composite	(c)	3761.0	3743.5	3766.6	3806.1 (8/6)	3350.5 (6/1)
MONTREAL Portfolio	(c)	1893.02	1892.04	1906.80	1948.46 (9/6)	1677.48 (3/1)

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Western Union	996,300	1⅝	
ATT	929,200	34⅝	− ⅛
Kroger	863,900	15⅜	+ ⅝
Phillips Pet.	713,200	22⅝	+ ⅞
Paramount Comm	697,800	60⅛	+ 1
IBM	612,800	112⅜	+ ⅜
Thiokol Corp	596,500	13⅛	
Pacific Telecom xd	594,100	40	+ ⅛
Nova Corp	558,800	9⅝	+ ½
Marion Labs	552,800	24	+ ½

Base values of all indices are 100 except NYSE All Common – 50; Standard and Poor's – 10; and Toronto Composite and Metals – 1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

INDICES

	July 4	July 3	June 30	June 29	1989 High	1989 Low
AUSTRALIA						
All Ordinaries (1/1/80)	1504.6	1501.2	1521.1	1524.7	1583.7 (23/5)	1412.9 (7/4)
All Mining (1/1/80)	680.8	681.3	690.6	693.7	727.8 (26/1)	652.6 (7/4)
AUSTRIA						
Credit Aktien (30/12/84)	353.89	352.23	348.97	347.82	366.67 (21/6)	219.5 (2/1)
BELGIUM						
Brussels SE (1/1/80)	6167.26	6158.43	6098.25	6110.99	6167.26 (4/7)	5519.30 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	340.35	348.12	341.51	340.46	341.51 (30/6)	275.49 (27/2)
FINLAND						
Unitas General (1975)	768.5	773.6	779.3	781.9	815.8 (18/4)	723.3 (4/1)
FRANCE						
CAC General (31/12/82)	480.0	477.7	476.10	481.47	491.00 (26/6)	417.90 (4/1)
Ind. Tendance (30/12/88)	113.3	111.7	112.0	112.1	114.6 (26/6)	97.5 (27/2)
GERMANY						
FAZ Aktien (31/12/58)	626.70	616.91	613.00	618.44	626.70 (4/7)	535.78 (27/2)
Commerzbank (1/12/53)	1864.0	1834.8	1825.0	1842.3	1864.0 (4/7)	1595.7 (27/2)
DAX (30/12/87)	1505.67	1492.33	1473.72	1491.93	1505.67 (4/7)	1271.70 (23/2)
HONG KONG						
Hang Seng Bank (31/7/64)	2316.74	2270.81	2273.91	2275.32	3309.64 (15/5)	2093.61 (5/6)
ITALY						
Banca Com. Ital. (1972)	649.26	651.97	649.44	650.41	661.97 (3/7)	577.49 (28/2)
JAPAN						
Nikkei (16/5/49)	33190.38	33236.42	32948.69	32956.3	34266.75 (31/5)	30183.79 (5/1)
Tokyo SE (Topix) (4/1/68)	2469.55	2467.15	2449.38	2453.99	2544.60 (8/5)	2366.91 (6/1)
NETHERLANDS						
CBS Tl.Rtn.Gen.(End 1983)	248.8	248.8	248.5	250.3	253.5 (28/6)	208.3 (3/1)
CBS All Shr (End 1983)	193.7	193.7	193.4	194.8	197.4 (28/6)	166.7 (1/3)
NORWAY						
Oslo SE (2/1/83)	632.18	628.35	630.58	633.32	665.61 (19/4)	467.17 (2/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	1303.83	1298.06	1307.67	1315.29	1315.29 (29/6)	1030.69 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	1561.0	1531.0	1527.0	1537.0	1639.0 (23/3)	1291.0 (15/2)
JSE Industrial (28/9/78)	2626.0	2624.0	2628.0	2635.0	2635.0 (29/6)	1961.0 (3/1)
SPAIN						
Madrid SE (30/12/85)	306.84	308.05	309.58	312.05	315.90 (13/6)	268.61 (1/3)
SWEDEN						
Jacobson & P. (31/12/56)	4186.1	4179.9	4194.1	4210.6	4219.4 (28/6)	3333.9 (3/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	755.7	752.0	746.0	748.7	755.7 (4/7)	613.1 (3/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	500.4	494.3	498.4	519.0 (17/2)	487.6 (13/6)

◊ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia. All Ordinary and Mining – 500. (c) Closed (u) Unavailable.

TOKYO - Most Active Stocks
Tuesday July 4 1989

	Stocks Traded	Closing Prices	Change on day
Fujitsu	23.9m	1,640	+90
Teijin	13.7m	924	+28
NEC	11.3m	2,010	+60
Melco	8.9m	1,180	+40
Kawasaki Steel	8.6m	895	-25
Fuji Film	8.6m	4,250	+110
Toshiba	8.2m	1,390	+20
Canon Ind	7.7m	1,830	+10
Smitomo Prcl sion	7.3m	2,310	+130
Kobe Steel	6.8m	791	-21

FINANCIAL TIMES

Wednesday July 5 1989

EUROPE

German index breaks key barrier

IT WAS a generally strong day in Europe, with gains again led by Frankfurt, which strode through new barriers, *writes Our Markets Staff.*

FRANKFURT experienced a surge in confidence, which helped share prices climb to further year highs in active trading.

The FAZ midsession index shot through the important resistance level of 620, closing 10.91, or 1.7 per cent, higher at a post-crash peak of 626.70. One analyst said the index could test 650 before the autumn.

The DAX index rose to a second successive year high, adding 13.34, or 0.9 per cent, to 1,505.67 after hitting 1,515.76. Turnover reached DM7.7bn from Monday's DM5bn.

People were taking a more bullish view on interest rates, while fears of a recession in the US were not harming West Germany, with its good fundamentals, said the analyst. Demand was so strong that the Düsseldorf market had stayed open for an extra half hour to cope with orders.

Financial issues were in the vanguard of the advance, with Commerzbank, which has underperformed this year, closing DM8 up at DM261 before spurting ahead to DM267 after hours. It was also one of the day's most active stocks. Insurer Allianz was up DM41 at DM1,948, and AMB, which predicted an 18 per cent profits rise, DM10 higher at DM830.

There was also demand for quality engineering stocks such as Linde, which gained DM6 to DM774, and a return of interest in chemicals. Bayer found DM3.90 to DM229.20 and Hoescht DM1.70 to DM298.70.

Siemens advanced DM11.90 to DM587.90. The company announced that it planned to bring its 4-megabit computer chips on to the market at the end of the year.

Among losers, VW fell DM5.50 to DM435. It said it had raised first-half group turnover and profits, but predicted the rate of growth would not be as good for the year as a whole.

PARIS ended higher in spite of continuing low volumes, with some market players winding down for the summer holidays. The absence of trading on Wall Street was seen by some as a positive factor, since the French market was able to move ahead without its usual trepidation about what would happen in the US.

The OMF 50 index gained 2.69 to 496.66, while the real time CAC 40, which included falls in a lot of stocks that went ex-dividend, was up just 4.14 at 1,741.59. The opening CAC General index rose 2.3 to 480.0. Volume was higher than Monday's FFr1.2bn, when a computer breakdown hit trading, but was still low at FFr1.6bn to FFr1.7bn.

BSN continued to benefit from its rapid sale to PepsiCo of two of the European businesses it bought last month from Nabisco. It rose FFr9 to FFr701 in active trading. Some brokers have been revising their earnings forecasts upwards again to the same or higher levels than before the deal with Nabisco.

Construction stock Bouygues rose FFr20 to FFr710 amid signs that the core of friendly shareholders was being tightened up and further speculation about stake-building in Bouygues or its majority-owned TF1 television station by Italian entrepreneur Mr Silvio Berlusconi.

Cie du Midi rose FFr40 to FFr1,346, but in low volume. One analyst suggested speculators might have been betting on Generali of Italy raising its stake from about 17 per cent now to the 20 per cent which the Bank of France agreed it could hold by the end of July. However, he said, such speculation ignored Generali's request to the Bank to allow it another year in which to accumulate the stake.

On the downside, LVMH was off FFr68, or 2 per cent, at FFr4,110 following Monday's court decision on contested shares held by Mr Bernard Arnault, the chairman, which took him a step closer to control of the group.

AMSTERDAM saw sharp movements in individual stocks but ended little changed in a day of moderate turnover worth Fl 709m. The CBS tendency index was up 0.1 at 187.3.

Center Parcs fell a heavy Fl 9.80 to Fl 71 after Scottish & Newcastle said it would not launch a public offer for at least three years. The UK brewing group has bought a 60 per cent privately held stake in Center Parcs and will hold a further 5 per cent through an issue of 1m new shares.

Computer company Volmac was the next most active stock, dropping Fl 10 to Fl 54.50 as it again revised downwards its forecasts for profits and earnings per share this year.

There was good news for the broking community as Kas Associatie, a deposit bank for independent stockbrokers and foreign institutional investors, reported a leap in first half earnings and jumped Fl 6.80 to Fl 50. Merchant bank Kempen rose Fl 2 to Fl 17.60 amid takeover talk and before the announcement of a rise in six month profits.

Office furniture company Ahrend added Fl 7.50 to a year's high of Fl 321 as it was again rumoured that Bührmann Tetterode, packaging group, was preparing a bid.

ZURICH made healthy gains across the board, with the Crédit Suisse index rising 5.2 to 618.3 as investors took advantage of fading interest rate fears after last week's increases. Profit-taking, however, tipped some blue chips off their day's highs.

MILAN declined on profit-taking after its recent advances and on continued political uncertainty. The Comit index lost 2.81 to 649.16 on estimated turnover of L260bn. Insurance stocks turned downwards, with Generali off L260 at L42,730.

MADRID had another weak day, weighed down by interest rate worries and growing nervousness about the effect of the "big bang" reforms on July 29. The general index shed 1.40 to 306.84.

STOCKHOLM recovered from Monday's losses following Wall Street's advance on Monday night. Low turnover of SKr163m reflected the approach of the traditional July holiday, or "cucumber season." The Affärsvärlden General index rose 5.0 to 1,221.2.

Shares in UV Shipping were suspended at SKr72 after Nordstrom & Thulin, the leading shipping company, made a SKr92-a-share bid for Sweden's number two shipping group. Nordstrom's free B shares closed up SKr3 at SKr93.

BRUSSELS was mixed on the first day of the new account with attention again devoted to Raffinerie Tirlemontoise, the foods and sugar refinery group, and Société Générale, the holding company.

Tirlemontoise jumped BFr240, or 11.3 per cent, to BFr2,370 with a hefty 116,800 shares changing hands as speculation that a single buyer was amassing a stake intensified.

OSLO interest focused on Hafslund Nycomed which said it had signed a $14m research and development agreement with Japan's Daiichi Seiyaku. Hafslund non-voting B shares rose NKr4 to NKr176.

SOUTH AFRICA

A STRONGER bullion price helped gold shares firm in Johannesburg, but trading was expected to remain subdued until US markets reopen.

ASIA PACIFIC

Politics casts shadow over Nikkei

Tokyo

POLITICAL worries were stirred again yesterday as Monday's election results began to sink in, and equities closed lower after drifting listlessly throughout the day, *writes Michiyo Nakamoto in Tokyo.*

An early attempt to maintain the upward trend from late afternoon trading on Monday was quickly undermined by a wave of profit-taking that led share prices lower by the morning close. The Nikkei average later fluctuated between a high of 33,279.53 and a low of 33,181.10, before closing down 46.04 at 33,190.38.

Gains outnumbered losses by 512 to 390 while 165 issues were unchanged. Turnover, although up from the year's low of 306m shares on Monday, was still very thin at 545m shares.

The TSE index of all listed shares, however, gained a modest 2.40 to 2,469.55 and, in London trading, the ISE/Nikkei 50 index added 0.69 to 1,974.5.

On Monday, investors had chosen to look on the brighter side of the Tokyo Metropolitan Assembly election. They had regarded the Liberal Democratic Party setback as pretty much expected and had been glad that the bad news was over. However, they were more hesitant one day after the event, and with elections to the upper house of the Diet (Parliament) coming up on July 23.

While the low volume reflects the overall lack of participation by institutional investors, inflows to investment trusts have also fallen considerably from last year's levels.

Analysts pointed out, however, that while buying interest may be low, there has been no great rush to sell. The consensus was that, although shares may slip gradually, buying on a dip from investment trusts should support the market at the lower end.

One feature yesterday was the shift of interest away from large capital steels to high-priced issues with low price earnings ratios, particularly high-technology issues.

Fujitsu led the volumes list with 23.9m shares traded, rising Y90 to Y1,640. Fujitsu, which has a low p/e ratio for the year to March 1990 of 40, attracted attention after a report that it will develop mobile telephones. The settlement of US-Japan telecommunications negotiations was expected to help the mobile telephone market grow and, as a result, benefit makers of such equipment.

NEC was third in volume terms with 11.3m shares and advanced Y80 to Y2,010.

Interest in high-priced issues with low p/e ratios stemmed in part from a desire to make quick profits, as such issues are generally thinly traded. They also have attractive earnings profiles but have been neglected for some time, so they are not overbought. "It is a reflection of how defensive people are now," one broker said.

On the other hand, large volume steels, which were widely bought on Monday, came in for heavy profit-taking. Kawasaki Steel lost Y25 to Y895 and Kobe Steel fell Y21 to Y791.

Teijin, the top polyester maker in Japan, was second on the actives list with 13.7m shares traded, rising Y28 to Y924.

Interest in issues with strong business results supported a 411.72 point rise in the OSE average to 32,689.17. Turnover improved significantly to 64m shares against 23m traded on Monday. Murata Manufacturing, a maker of electric machines, advanced Y130 to a new high for the year of Y3,070 on its quick price movements and as a laggard.

Roundup

THE HONG KONG market starred in Asia with a sharp rise, while Singapore and Australia were little changed.

HONG KONG attracted bargain-hunters, whose arrival helped share prices rise sharply. The Hang Seng index advanced 45.93 or 2 per cent, to 2,316.74.

The focus switched from the situation in China to Hong Kong fundamentals. Property stocks were busy, with New World up 35 cents at HK$8.05, Cheung Kong rising 15 cents to HK$7.05 and Hongkong Land gaining 10 cents to HK$6.95.

Turnover improved to HK$535m from Monday's HK$460m.

SINGAPORE was the scene of alternate bargain-hunting and profit-taking, leaving shares mixed in moderate trading. The Straits Times Industrial index rose 5.77 to 1,303.83 in volume of 76m shares, down from 101m on Monday.

Perlis rose 20 cents to S$6.55 on firm sugar prices, while Jurong Shipyard bounced back from its loss on Monday with a 15 cent rise to S$6.40. Institutional investors were mostly inactive.

AUSTRALIA saw very thin trading, edging upwards on takeover themes but with little other stimuli. The All Ordinaries index rose 3.4 to 1,504.6 in turnover of 55m shares worth A$119m.

Goodman Fielder Wattie, which has abandoned its bid for IEL, rose 9 cents to A$3.20 amid speculation that it might again be a takeover target. IEL shed 5 cents to A$1.99 in heavy trading on negative reaction to the plan by Mr Abe Goldberg and two IEL executives to buy a controlling stake. Brierley Investments, which has sold 19.3 per cent of IEL to the three men, rose 5 cents to A$1.35.

Beleaguered Bond Corp fell 6 cents to 82 cents and Bell Resources, its subsidiary, lost 5 cents to 75 cents.

NEW ZEALAND recouped most of its previous day's losses, with the Barclays index rising 17.29 to 1,919.27.

MANILA fell below the 1,000 level on the composite index as nervousness continued. Investors were said to be worried about President Corazon Aquino's forthcoming European visit.

The composite index fell 28.03, or 2.8 per cent, to 976.30.

Customary relationship between US stocks and bonds falls apart

Wall Street has dropped as investors replace their inflation worries with nervousness about corporate profits, writes **Anatole Kaletsky**

WHO would have imagined, even a few weeks ago, that Wall Street would suffer its worst losses since the aftermath of Black Monday during the week when US bond prices hit their highest level for more than two years?

The answer is probably nobody. Yet nobody should have been *too surprised,* at least in retrospect, by last week's seemingly perverse market action.

The first hints of a divergence between stock prices and interest rates began to emerge in mid-May, when the bond market swept through the 8¾ *per cent* yield barrier in response to surprisingly weak figures on retail sales and producer prices. While the Dow Jones Industrial Average pushed through 2,500 on May 19 – the day when bond yields fell below 8¾ per cent for the first time this year – that was as much jubilation as equity investors could manage.

Since that exciting day, long-term interest rates have fallen a further 75 basis points, but every attempt by the stock *market to rally has* been repelled by bears just above the 2,500 mark. Now that this process has been repeated four times in succession, it should be *possible to discern* a pattern, as Inspector Clouseau might say. The next step, which Wall Street is only now taking, is to attempt an explanation.

Three inter-related explanations are now fashionable for the stock market's sudden propensity to collapse just when the bond market rises.

The most popular one is *quite simple: investors* have given up worrying about inflation and are panicking about recession instead. This may be a reasonable diagnosis for some of the manic depressive market commentators on Wall Street.

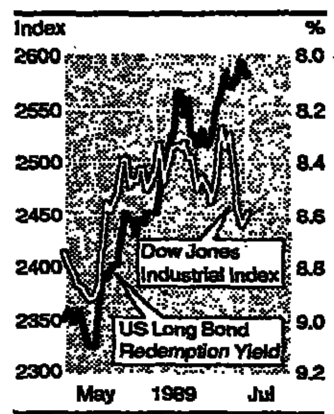
Among the people who actually take investment decisions, however, it is still hard to find anyone who believes that a *true recession is a serious* possibility within the next 12 months – which leads to the second explanation.

It will not take a full-scale *recession to play havoc* with US corporate profits. Even the modest economic slowdown that has occurred already seems quite sufficient, to judge by the Commerce Department's recent revisions of the first quarter gross national product.

According to the figures published last month, net corporate profits, after allowing for inventory valuation and capital consumption adjustments, were 12.2 per cent lower in the first quarter than in the three months before and 4.6 per cent down on the first quarter of 1988. Thus profits were already collapsing, even before the much vaunted "soft landing" of the economy had officially begun and before the strong dollar had taken its toll.

Investment strategists on Wall Street *still* expect the profits reported by the companies in the Standard & Poor's 500 index to rise by an average of 9 per cent this year and a further 3 per cent in 1990, according to the Institutional Brokers Estimates System.

However, as many analysts have started to point out in recent weeks, American companies' earnings reports bear little relation to their true economic *profits. This is because* American accounting techniques ignore the impact of inventory inflation and make inadequate allowances for current-cost depreciation, as well as permitting all kinds of tomfoolery such as inclusion of one-time capital gains in "above the line" profits. As a result, American companies *tend* to report exaggerated profits, especially *in periods* when inflation is accelerating, like the present.



In the past week or two, Wall Street has suddenly seized upon this point. Analysts have started warning that stock market valuations will ultimately reflect true economic profits, not the artificially inflated variety put out by corporate managers and accountants. Some have gone on to point out that true profits in the US economy peaked as long ago as early 1986. They plunged during *the* next year and a half, reaching a nadir just before Black Monday.

The conventional wisdom on Wall Street has held that the rapid growth of earnings in 1988 justified, at least in retrospect, the stratospheric prices in the stock market before Black Monday. The Commerce Department's figures, however, suggest a very different interpretation: that the collapse of true economic profits in 1986 accurately foreshadowed the carnage of Black Monday, giving anyone who cared to notice as much as 18 months' warning.

Is history about to repeat itself? Wall Street is naturally asking itself this question now *that true profits stand 16 per* cent below their peak of early 1986. Deep down, however, it is questionable if anybody really cares about the answer. For if history does repeat *itself,* the bull market could still have a year to go before the deteriorating quality of profits finally takes its toll on stock prices.

Even today, few fund managers or analysts care about or understand the obscurities of inflation accounting and *capital consumption adjustments.* They will go on projecting traditional reported profits and they will continue fulminating or celebrating, depending on whether companies *disappoint* or exceed these economically meaningless forecasts.

There is, however, a more brutal version of the great *profits debate* which *everyone* can understand on Wall Street. The Commerce Department's estimate of profits collapsed in the first quarter for a very simple *reason: corporate* labour costs jumped at a 6.6 per cent annual rate in the quarter and non-labour costs rose 7 per cent, but output prices rose by only 4.6 per cent. Businesses, in other words, were suffering escalating costs and failing to pass them on to customers.

This is the third and most convincing explanation for the apparent inconsistency in the bond and equity markets' behaviour. It *also accounts for* the recent disenchantment in the stock market with the strength of the dollar, which now threatens a further nasty squeeze on corporate profit margins and pricing freedom.

The fact is that shareholders need their companies to raise prices. Bondholders, however, need companies to fail in their attempts to pass on higher costs – only then can inflation be curbed and the present low level of interest rates be validated.

If businesses can pass on costs, the stock market can probably flourish for another year or so, even while inflation accelerates and the bond market falls. If, on the other hand, inflation starts declining, then corporate profits will inevitably suffer further depradations, *as wages will be slow to* respond to lower prices while productivity will presumably decline as the economy decelerates.

Perhaps the point has now been reached in the economic cycle when equity and bond investors are fundamentally at odds. In fact, a little more inflation may be just the tonic that shareholders in US companies now require.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY JULY 3 1989						FRIDAY JUNE 30 1989			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Day's change % local currency	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1989 High	1989 Low	Year ago (approx)
Australia (86)	131.02	−0.1	123.14	114.07	−1.1	5.22	131.09	125.47	115.40	157.12	128.28	137.46
Austria (19)	121.94	+0.8	114.60	122.66	+0.0	2.20	120.99	115.81	122.69	124.16	92.84	85.79
Belgium (63)	129.06	+0.3	121.29	129.06	−0.5	4.24	128.65	123.13	129.76	137.10	125.58	117.75
Canada (124)	140.54	+0.3	132.08	121.56	+0.0	3.29	140.13	134.12	121.56	141.80	124.67	126.22
Denmark (38)	201.34	+0.5	189.23	205.52	−0.8	1.64	200.37	191.78	207.19	201.34	165.35	129.30
Finland (28)	139.93	−0.2	131.51	128.12	−1.0	1.64	140.27	134.26	129.38	159.16	125.81	131.17
France (128)	120.62	+1.6	113.36	123.93	+0.3	3.06	118.68	113.59	123.52	122.79	112.57	96.32
West Germany (100)	91.02	+2.6	85.54	91.25	+1.2	2.23	88.71	84.91	90.14	91.02	79.56	76.44
Hong Kong (49)	94.11	−0.1	88.45	94.22	−0.1	5.68	94.17	90.14	94.27	140.33	86.41	107.90
Ireland (17)	134.57	+1.1	126.47	137.80	−0.1	3.06	133.05	127.35	137.95	151.36	125.00	134.73
Italy (97)	85.71	+1.7	80.56	89.46	+0.6	2.48	84.30	80.89	88.96	86.88	74.97	71.74
Japan (455)	175.64	+2.7	165.07	156.82	+0.8	0.51	170.97	163.64	155.63	200.11	164.22	156.74
Malaysia (36)	181.98	+0.4	171.03	189.10	+0.3	2.54	181.29	173.52	188.55	185.03	143.35	149.59
Mexico (13)	249.16	−3.5	234.16	682.40	−3.3	0.74	258.23	247.16	705.83	271.98	153.32	171.84
Netherland (43)	120.26	+1.4	113.02	119.30	+0.1	4.34	118.57	113.49	119.17	122.22	110.63	103.15
New Zealand (22)	64.98	−1.1	61.07	60.11	−1.1	6.20	65.70	62.88	60.79	76.02	62.64	75.25
Norway (26)	178.32	+0.1	167.59	171.12	−0.9	1.49	178.21	170.57	172.65	198.39	139.92	121.01
Singapore (26)	158.24	−0.6	148.72	143.00	−0.7	1.94	159.16	152.33	144.01	161.98	124.57	122.93
South Africa (60)	149.95	−1.1	140.92	131.64	−0.1	4.07	151.58	145.08	131.74	152.62	115.35	120.93
Spain (43)	149.99	+1.2	140.97	138.80	−0.5	3.55	148.24	141.88	139.48	156.17	143.14	151.10
Sweden (35)	166.26	+0.5	156.26	161.52	−0.7	2.13	165.35	158.26	162.72	166.26	138.45	116.74
Switzerland (57)	81.77	+2.1	76.85	83.88	+0.7	2.29	80.08	76.65	83.33	81.77	67.81	79.21
United Kingdom (313)	141.22	+2.6	132.72	132.72	+0.7	4.42	137.70	131.79	131.79	153.33	133.28	129.43
USA (555)	130.18	+0.4	122.35	130.18	+0.4	3.47	129.67	124.11	129.67	133.83	112.13	110.98
Europe (1005)	119.55	+2.1	112.36	116.50	+0.5	3.53	117.13	112.11	115.89	121.70	112.63	105.14
Nordic (125)	162.45	+0.4	152.67	154.41	−0.8	1.84	161.80	154.86	155.65	162.45	137.95	113.56
Pacific Basin (674)	170.92	+2.6	160.64	152.90	+0.7	0.74	166.64	159.49	151.86	194.72	160.44	153.98
Euro – Pacific (1679)	150.46	+2.4	141.41	138.29	+0.6	1.65	146.92	140.62	137.42	164.22	141.56	134.48
North America (679)	130.70	+0.4	122.84	129.66	+0.4	3.46	130.20	124.62	129.18	134.17	112.79	111.79
Europe Ex. UK (692)	105.71	+1.7	99.35	106.47	+0.4	2.86	103.94	99.48	106.05	105.71	96.30	89.99
Pacific Ex. Japan (219)	114.52	−0.1	107.63	104.10	−0.8	5.03	114.68	109.77	104.89	137.65	111.93	120.70
World Ex. US (1876)	150.17	+2.3	141.13	137.87	+0.6	1.72	146.80	140.50	137.04	162.77	141.49	134.09
World Ex. UK (2118)	142.12	+1.6	133.57	135.49	+0.5	2.09	139.92	133.92	134.80	146.04	136.98	124.68
World Ex. So. Af. (2371)	141.98	+1.7	133.44	135.24	+0.5	2.26	139.63	133.65	134.52	146.65	136.67	125.11
World Ex. Japan (1976)	126.16	+0.9	118.57	124.21	+0.4	3.56	125.00	119.64	123.75	128.01	114.51	109.93
The World Index (2431)	142.03	+1.7	133.48	135.21	+0.5	2.29	139.70	133.71	134.50	146.51	136.88	125.09

Latest prices were unavailable for this edition.

Constituent change: Delete: Magnet (UK) (4/7/89).